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وزارة التعليم
Ministry of Education

المملكة العربية السعودية

Introduction To Business

Secondary Stage – Pathways System
Second Year

The book is distributed freely and cannot be sold.

1447-2025 Edition

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INTRODUCTION

The progress and development of countries can be measured by their ability to invest in education and by the extent to which their educational system responds to the requirements and changes of the age. It is the responsibility of the Ministry of Education to sustain the development of its educational systems. In response to the concept of Saudi Arabia's Vision 2030 policy, the Ministry has taken the initiative in adopting the Secondary Education Pathways system with the aim of bringing about effective and comprehensive reform at the secondary stage.

The Secondary Education Pathways system provides a distinguished and modern educational model for secondary education in Saudi Arabia, which efficiently contributes to:

- Strengthening the values associated with belonging to our homeland, the Kingdom of Saudi Arabia, and of loyalty to its wise leaders, may Allah protect them, based on pure belief founded on tolerant Islamic teachings.
- Strengthening the values of citizenship by focusing on them in the school curriculum and in class activities, in line with the demands of sustainable development and the development plans of Saudi Arabia, which emphasize the consolidation of the duality of values and identity, founded on the teachings of Islam and moderation.
- Offering qualifications to students that are in line with future specializations in universities and colleges or the required professions, and ensuring that educational outputs are consistent with the requirements of the labor market.
- Enabling students to pursue education along their preferred track at an early stage, according to their inclinations and abilities.
- Enabling students to enrol in specific scientific and administrative disciplines related to the labor market and future jobs.
- Integrating students into an enjoyable and stimulating learning environment within the school, based on a constructive philosophy and applied practices within an active learning environment.
- Guiding students on an integrated educational journey from the primary stage to the end of secondary stage, and facilitating the process of their transition to the post-general education stage.
- Providing students with the technical and personal skills which will help them to deal with life and to respond to the requirements of the stage they are at.
- Expanding opportunities for graduate secondary school students through various options in addition to universities, such as by obtaining professional certificates, joining applied colleges, and obtaining job diplomas.

The Pathways system consists of six semesters taught over three years, including a common first year in which students receive lessons in various scientific and human fields, followed by two specialized years during which students follow a general pathway as well as four specialized pathways consistent with their inclinations and abilities. These are: the Legal Pathway, the Business Administration Pathway, the Computer Science and Engineering Pathway, and the Health and Life Pathway. This makes this system the best option for students in terms of:

- The existence of new study materials that comply with the requirements of the so-called Fourth Industrial Revolution and its associated development plans, as well as the Saudi Vision 2030 policy which aims to develop higher-order thinking, problem solving, and research skills.
- Elective field programs which are consistent with the needs of the labor market and the students' own preferences. This enables students to enrol in a specific elective field according to a specific job skills matrix.
- An "inclination" scale that ensures the attainment of students' efficiency levels and effectiveness, and helps them to determine their own tendencies, predispositions, and strengths—all of which enhances their chances of success in the future.
- Volunteer work designed specifically for students in line with the philosophy of activities in schools, which is also one of the graduation requirements. This helps to promote humane values, build up society, and ensures its development and cohesion.
- A transfer procedure that enables students to move from one pathway to another according to specific mechanisms.
- Proficiency classes in which skills are developed and achievement levels improved, by providing intensive and remedial lessons.

- Options for combining education with e-learning and blended learning/teaching, which are built into the Pathways system for reasons of flexibility, convenience, interaction, and effectiveness.
- A graduation project that helps students to integrate theoretical experiences with applied practices.
- Professional and skill-based certificates that are awarded to students after completing specific tasks and certain tests in partnership with specialized bodies.

The Business Administration Pathway is one of the paths developed at the secondary level. It contributes to achieving best practices by investing in human capital and providing students with the knowledge, experience, and skills that will allow them to keep pace with the Fourth Industrial Revolution and the challenges of the 21st century. This pathway also seeks to provide students with the necessary skills to deal with the administrative and financial challenges of the digital economy era in order to ensure a stable economic future. This is driven and supported by: 1) the contents of the Saudi Vision 2030 policy, 2) the two associated programs for developing human capabilities and the quality of life, and 3) the labor market's need for qualified personnel to work in future jobs. The pathway is also intended to promote the values of hard work, discipline, determination, perseverance, positivity, flexibility, national values, enhanced national identity, support for a culture of innovation and entrepreneurship, support for the value of volunteer work—all to prepare students for the labor market and to expand educational opportunities for them. It may also contribute to preparing students to continue their studies at university level, or to obtain professional certificates in one of the related disciplines.

The subject "Introduction to Business", which is taught at the fifth level of the secondary stage of the Pathways system, familiarizes students with the basics of business, pitched at a level that is suitable for their target age. The subject achieves this by:

- Providing the requisite knowledge and skills set.
- Encouraging students to form a positive outlook towards work.
- Encouraging students to develop a culture of self-employment.
- Promoting work values and ethics by linking the course's lessons to the students' own lives.
- Providing a range of activities that give students teamwork skills, research skills, and self-learning abilities, in addition to case studies and real-world applications that enhance students' management concepts and enable them to develop analytical, deductive, and critical-thinking skills.

The subject at this level will deal with the main aspects related to business organizations under four chapter headings aimed at:

- Providing students with the basic concepts of management and leadership, the different management functions and styles and the managerial leadership required to deliver Saudi Vision 2030.
- Introducing students to the concepts of entrepreneurship and small business management by focusing on entrepreneurial life, becoming an entrepreneur and small business basics.
- Introducing students to the idea of starting a small business, by planning a career in small business ownership, developing start-up ideas and an overview of the business plan.
- Helping students understand ways in which technology is used in business, by introducing business applications of technology, e-business and social media in business.
- Helping students to prepare a business plan by introducing the content and format, advice for writing a business plan and the resources needed for business plan preparation.

To ensure that students' skills and knowledge are measured in tandem with the content of the book's chapters, a set of assessment questions and activities has been prepared at the end of each chapter, taking into account the whole range and diversity of assessment strategies.

Finally, we ask Allah the Almighty to grant that this book may contribute to preparing and qualifying our sons and daughters as students for the world of work and business, and that it may act as an incentive to invest their energies wisely, to build their future, and to contribute to the development of their country.

It is Allah who grants success!

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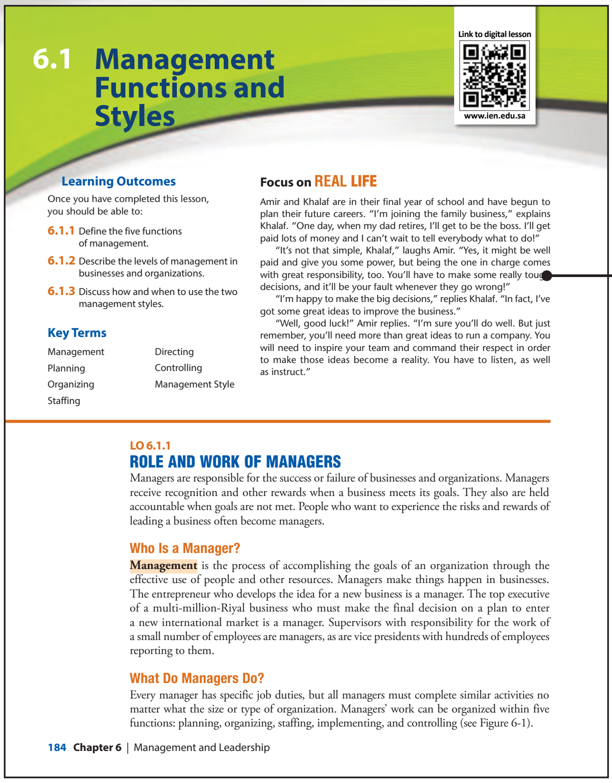

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6.1 Management Functions and Styles

Learning Outcomes

Once you have completed this lesson, you should be able to:

6.1.1 Define the five functions of management.

6.1.2 Describe the levels of management in businesses and organizations.

6.1.3 Discuss how and when to use the two management styles.

Key Terms

Management, Planning, Organizing, Staffing, Directing, Controlling, Management Style

Focus on REAL LIFE

Amir and Khalaf are in their final year of school and have begun to plan their future careers. "I'm joining the family business," explains Khalaf. "One day, when my dad retires, I'll get to be the boss. I'll get paid lots of money and I can't wait to tell everybody what to do!"

"It's not that simple, Khalaf," laughs Amir. "Yes, it might be well paid and give you some power, but being the one in charge comes with great responsibility, too. You'll have to make some really tough decisions, and it'll be your fault whenever they go wrong!"

"I'm happy to make the big decisions," replies Khalaf. "In fact, I've got some great ideas to improve the business."

"Well, good luck!" Amir replies. "I'm sure you'll do well. But just remember, you'll need more than great ideas to run a company. You will need to inspire your team and command their respect in order to make those ideas become a reality. You have to listen, as well as instruct."

LO 6.1.1

ROLE AND WORK OF MANAGERS

Managers are responsible for the success or failure of businesses and organizations. Managers receive recognition and other rewards when a business meets its goals. They also are held accountable when goals are not met. People who want to experience the risks and rewards of leading a business often become managers.

Who Is a Manager?

Management is the process of accomplishing the goals of an organization through the effective use of people and other resources. Managers make things happen in businesses. The entrepreneur who develops the idea for a new business is a manager. The top executive of a multi-million-Riyal business who must make the final decision on a plan to enter a new international market is a manager. Supervisors with responsibility for the work of a small number of employees are managers, as are vice presidents with hundreds of employees reporting to them.

What Do Managers Do?

Every manager has specific job duties, but all managers must complete similar activities no matter what the size or type of organization. Managers' work can be organized within five functions: planning, organizing, staffing, implementing, and controlling (see Figure 6-1).

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Social Responsibility in Small Business

Saudi Vision 2030 places people and communities at the heart of its goals. Companies across Saudi Arabia are increasingly showing commitment to the communities where they do business. Their contribution starts with creating jobs and providing valued products or services, but many entrepreneurs feel a duty to give back even more to the community in return for the local support they enjoy—and they usually benefit from increased goodwill as a result. It is important to recognize that opinions differ as to the extent to which businesses are obligated to engage in socially desirable activities, and the response of small businesses to that obligation also varies.

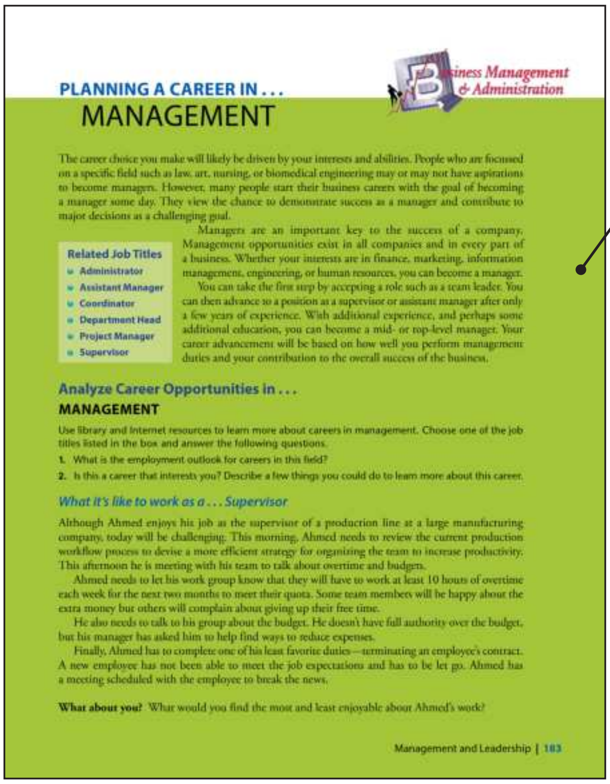
In any case, entrepreneurs should think carefully about their community commitments, because building a business on a foundation of "doing good" may add to a small company's financial burden. However, this is often more than offset by increased loyalty from customers and employees who buy into the mission, which leads to improved productivity and morale. It also sets a company apart from competitors that offer similar products or services but make no charitable contributions. Perhaps most importantly, this commitment is often rewarded by customers in two ways—repeat sales and a willingness to pay a little more for what they get. These are strong incentives to give serious consideration to a company's dedication to the community.

Think Critically

1. Can small businesses be profitable and responsible?
2. Suggest ways in which small businesses can play an active role in the local community.

Focus on Real Life relates to student life to get them thinking about the topics in the lesson.

Business Insight focuses on current issues in the business world such as technology, e-commerce, green energy, and social responsibility.



PLANNING A CAREER IN . . .

MANAGEMENT

The career choice you make will likely be driven by your interests and abilities. People who are focused on a specific field such as law, art, nursing, or biomedical engineering may or may not have aspirations to become managers. However, many people start their business careers with the goal of becoming a manager some day. They view the chance to demonstrate success as a manager and contribute to major decisions as a challenging goal.

Managers are an important key to the success of a company. Management opportunities exist in all companies and in every part of a business. Whether your interests are in finance, marketing, information management, engineering, or human resources, you can become a manager.

You can take the first step by accepting a role such as a team leader. You can then advance to a position as a supervisor or assistant manager after only a few years of experience. With additional experience, and perhaps some additional education, you can become a mid- or top-level manager. Your career advancement will be based on how well you perform management duties and your contribution to the overall success of the business.

Related Job Titles

- Administrator
- Assistant Manager
- Coordinator
- Department Head
- Project Manager
- Supervisor

Analyze Career Opportunities in . . .

MANAGEMENT

Use library and Internet resources to learn more about careers in management. Choose one of the job titles listed in the box and answer the following questions.

1. What is the employment outlook for careers in this field?
2. Is this a career that interests you? Describe a few things you could do to learn more about this career.

What it's like to work as a . . . Supervisor

Although Ahmed enjoys his job as the supervisor of a production line at a large manufacturing company, today will be challenging. This morning, Ahmed needs to review the current production workflow process to devise a more efficient strategy for organizing the team to increase productivity. This afternoon he is meeting with his team to talk about overtime and budgets.

Ahmed needs to let his work group know that they will have to work at least 10 hours of overtime each week for the next two months to meet their quota. Some team members will be happy about the extra money but others will complain about giving up their free time.

He also needs to talk to his group about the budget. He doesn't have full authority over the budget, but his manager has asked him to help find ways to reduce expenses.

Finally, Ahmed has to complete one of his least favorite duties—terminating an employee's contract. A new employee has not been able to meet the job expectations and has to be let go. Ahmed has a meeting scheduled with the employee to break the news.

What about you? What would you find the most and least enjoyable about Ahmed's work?

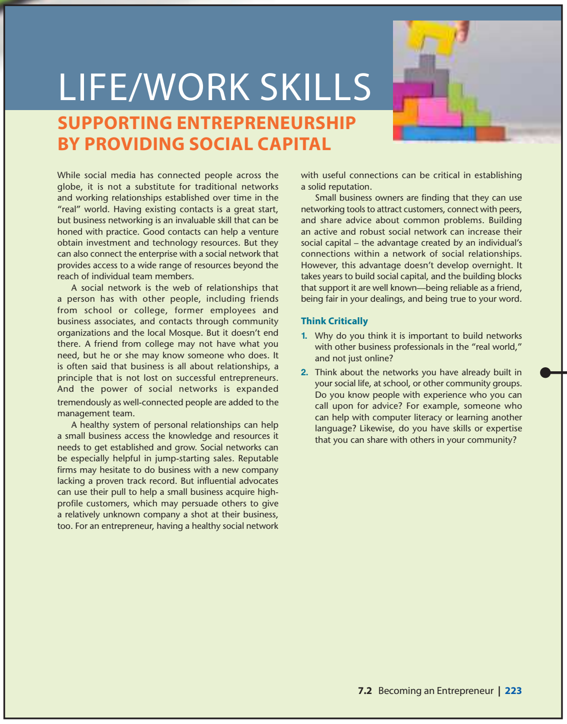
Management and Leadership | 183

Planning a Career in... presents the education, training, work experience, and industry opportunities for a variety of business-related career paths.

CHECKPOINT

What are the five management functions?

Checkpoint allows students to assess their understanding at key points in each lesson.



LIFE/WORK SKILLS

SUPPORTING ENTREPRENEURSHIP BY PROVIDING SOCIAL CAPITAL

While social media has connected people across the globe, it is not a substitute for traditional networks and working relationships established over time in the "real" world. Having existing contacts is a great start, but business networking is an invaluable skill that can be honed with practice. Good contacts can help a venture obtain investment and technology resources. But they can also connect the enterprise with a social network that provides access to a wide range of resources beyond the reach of individual team members.

A social network is the web of relationships that a person has with other people, including friends from school or college, former employees and business associates, and contacts through community organizations and the local Mosque. But it doesn't end there. A friend from college may not have what you need, but he or she may know someone who does. It is often said that business is all about relationships, a principle that is not lost on successful entrepreneurs. And the power of social networks is expanded tremendously as well-connected people are added to the management team.

A healthy system of personal relationships can help a small business access the knowledge and resources it needs to get established and grow. Social networks can be especially helpful in jump-starting sales. Reputable firms may hesitate to do business with a new company lacking a proven track record. But influential advocates can use their pull to help a small business acquire high-profile customers, which may persuade others to give a relatively unknown company a shot at their business, too. For an entrepreneur, having a healthy social network with useful connections can be critical in establishing a solid reputation.

Small business owners are finding that they can use networking tools to attract customers, connect with peers, and share advice about common problems. Building an active and robust social network can increase their social capital – the advantage created by an individual's connections within a network of social relationships. However, this advantage doesn't develop overnight. It takes years to build social capital, and the building blocks that support it are well known—being reliable as a friend, being fair in your dealings, and being true to your word.

Think Critically

1. Why do you think it is important to build networks with other business professionals in the "real world," and not just online?
2. Think about the networks you have already built in your social life, at school, or other community groups. Do you know people with experience who you can call upon for advice? For example, someone who can help with computer literacy or learning another language? Likewise, do you have skills or expertise that you can share with others in your community?

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Work as a TEAM

List the five human relations skills and rank them 1–5 in the order you believe is most important to effective leadership. Now compare your rankings with those of your team members. As a team, agree on a final ranking of the skills. When you are finished, discuss whether the process used to agree on rankings demonstrated effective human relations skills among team members or not.

Life/Work Skills exposes students to important, transferable soft skills used in nearly every business setting.

Work as a Team allows students to experience dynamics that enhance the learning process and learn the benefits an concerns of shared decision making.

Net Knowledge encourages students to use the Internet for business-related research.

NET KNOWLEDGE

Visit the Monsha'at website to explore the range of services and applications that support the running of a small business. Review the types of resources that can be accessed directly online. Choose one of the options and write a short summary about the information available.

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ASSESS STUDENT LEARNING

Chapter 6

Assessment

Review Business Concepts

6.1 Management Functions and Styles

- Managers' work can be organized within five functions: planning, organizing, staffing, implementing, and controlling. Not every manager devotes the same amount of attention and time to each of the functions.
- Most organizations have three levels of managers. Executives are top-level managers with responsibilities for the direction and success of the entire business. Middle managers are specialists with responsibilities for specific parts of a company's operations. Supervisors are the first level of management in a business and are responsible for the day-to-day work of a small group of employees.
- A manager might choose an authoritative approach when working with employees who are inexperienced, unmotivated, or uncomfortable being involved in decision making. Authoritative management might also be a good choice when operating under tight time pressures or assigning a new task. A manager should use a delegative approach when employees are skilled and experienced, the work is routine with few new challenges, employees are doing work they enjoy, the manager wants to improve group relationships, or employees are willing to take responsibility for the results of their work.

6.2 Managerial Leadership

- Strong leadership helps people with different backgrounds and personalities to work well together and do the work needed by the business. The characteristics of an effective leader are understanding, initiative, dependability, judgment, objectivity, confidence, stability, cooperation, honesty, courage, communication, and intelligence.
- The important human relations skills needed by leaders and managers are (1) self-understanding, (2) understanding others, (3) communication, (4) team building, and (5) developing job satisfaction.
- Position influence is the ability to get others to accomplish tasks because of the position the leader holds. Reward influence results from the leader's ability to give or withhold rewards. Expert influence arises when group members recognize a leader's expertise. Identity influence stems from the personal trust and respect members have for the leader.

Assessment | 201

Review Business Concepts
reinforces business concepts.

Develop Your Business Language
offers a review of key terms to help students build a strong business vocabulary.

Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
8.	Controlling		a. Identifying and arranging the work and resources needed to achieve the goals that have been set.
9.	Formal Influence		b. All of the activities involved in obtaining, preparing, and compensating the employees of a business.
10.	Human Relations		c. The way a manager works with and involves employees.
11.	Implementing		d. Enables a person to affect the actions of others.
12.	Influence		e. The process of accomplishing the goals of an organization through the effective use of people and other resources.
13.	Informal Influence		f. Analyzing information, setting goals, and making decisions about what needs to be done.
14.	Leadership		g. The way people get along with each other.
15.	Management		h. Determines to what extent the business is accomplishing the goals it set out to reach in the planning stage.
16.	Management Style		i. Power resulting from the personal characteristics of a leader rather than the formal structure of an organization.
17.	Organizing		j. The effort to direct and lead people to accomplish the planned work of the organization.
18.	Planning		k. The ability to motivate individuals and groups to accomplish important goals.
19.	Staffing		l. Power based on a leader's position within the formal structure of an organization.

Make Academic Connections

20. **Personal Development** The characteristics of effective leaders are shown in Figure 6-4. Create a three-column table. In the first column, list the characteristics from the figure. In the middle column, describe things you have done (hobbies, work, projects) that give evidence of each leadership characteristic. In the final column, list other things you can do in the next two years to further develop your capabilities as a leader.

Assessment | 203

Think Critically About Business

1. How are the managing activities of an entrepreneur starting a new business and the top executive of a large corporation similar and different? What are the most important management skills both types of managers need for their companies to be successful?
2. Describe one important management activity for each of the five management functions.
3. Which type of management style would you personally prefer a manager you work for to have? Why? What would you have to do to work effectively for a manager who used another style?
4. You have been assigned to be the team leader of a work group that must complete a very important project. What are the first things you would do to prepare and motivate the individuals to work well as a team to complete the assignment?
5. Review the list of leadership characteristics in Figure 6-4. Which three characteristics do you believe are the most important to managers? Which three do you believe are least important? Justify your choices. Compare your decisions with those of other students.
6. To demonstrate your self-understanding, what do you believe are your human relations strengths? What are your current weaknesses? Describe some examples of situations where you believe you demonstrated effective human relations.
7. In your school or another organization, identify four people that illustrate each of the four kinds of influence. Prepare an example of how each person uses his or her influence to accomplish the work of the organization.

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Make Academic Connections connects business concepts with core academic areas to support integrated learning.

Think Critically About Business
encourages students to use and hone their critical-thinking skills.

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Part 1

Chapter 1 Exploring the World of Business and Economics

Chapter 2 Business Organization

Chapter 3 Business in the Global Economy

Chapter 4 Human Resources, Culture, and Diversity

Chapter 5 Social Responsibility of Business

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Life-Span Plan Project: Part 1

Learning Outcomes

Once you have completed this lesson, you should be able to:

Explain how personal goals impact a life-span plan.

Name six areas of your life that should be part of your life-span plan.

Identify three life-span goals that can be used as the foundation for your own life-span plan.

Key Terms

Personal Goals

Life Span

Life-Span Goals

Life-Span Plan

Focus on REAL LIFE

"What are you doing? It looks like homework," Fatimah asked her older sister.

Nura looked up and smiled, "I'm planning my life. See, this is my life-span plan."

"How can you be planning your life? You haven't even finished high school. You are planning to finish high school, aren't you?"

"Of course, but now's the time to think about what I want to do in the future—get a job, maybe own my own business, travel. I need to set some goals and figure out how I'm going to achieve them."

Fatimah sat down and said, "I'm only two years behind you. I should probably be thinking about my future, too. Maybe you should tell me more about your life-span plan."

LIFE-SPAN PLANNING

The Life-Span Plan Project will help you see how you can start planning for the rest of your life. The project consists of this six-page introduction, activities that appear throughout this course, and creating your own life-span plan. Completing the project will help you develop skills you can use to make better decisions throughout your life.

Besides graduating from high school, what is another one of your short-term goals?

Your Personal Goals

Personal goals are the things that people want most to achieve in their lives. They are the things that hold the greatest value to them. Most people have set a wide range of goals for themselves. Some are *short-term goals* that they hope to achieve within a year. Others are *long-term goals* that will take many years to attain. Individuals' goals are likely to involve family,

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Although you might want to own a house in the future, what is your most important goal today?

living conditions, education, careers, community, and many other aspects of their lives. The goals you set for yourself are based on your personal values, your hopes, and your aspirations. Although many people share common goals, most people also have unique goals that set them apart from others.

There is no way to judge most goals as right or wrong, or better or worse. Your most important goal may be to study law and become a judge while your best friend might want to own a farm and grow vegetables. Your brother may want to start a family at a young age while you prefer to concentrate on your education and career first. As long as a person's goals are based on what she or he really wants from life, there is no reason for them to be the same as other people's goals.

Some of the important goals you could set for yourself involve topics you will learn about while studying this course. Suppose, for example, your most important personal goal is to have a happy and secure family life. You might think that this goal has little to do with what you will learn about business during this course. But, if what you learn about business helps you make a better career choice, then you may be able to earn a greater income and be more satisfied with your life. This will also allow you to provide a better standard of living for a family. The same is true for almost any other personal goal you might set.

A Life-Span Plan

As you grow older you should expect the things you want most in your life to change. Today you might believe that owning a nice car is your most important goal. In 10 years you may be more concerned with having a rewarding career, buying a home, or saving for your children's education. Even later you will want to have a satisfying retirement. Important events in your life, such as preparing for a career, raising a family, or enjoying retirement, are parts of your *life cycle*.

Your **life span** is the time from your birth to your death. It includes the events that make up your life cycle. When you are young, you will set long-term goals that you want to achieve over a period of years during your life span. Think of your life span as a straight line that contains the events of your life cycle.

The *life-span timeline* on the following page can help you understand the relationship between a life span and events in a person's life cycle. It shows a life span as a straight line along the top of the figure. Examples of events in the life cycle appear beneath the time in a person's life when they might happen. If you construct a figure like this for yourself, it is likely to have different events taking place at different times because your life will not be exactly the same as anyone else's.

Life-span goals are long-term goals that you want most to reach during your life. They shape many of the most important decisions you will make. Examples of life-span goals include earning a college degree, owning a business, raising a family, or achieving financial security. For most people,

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Life-Span Timeline

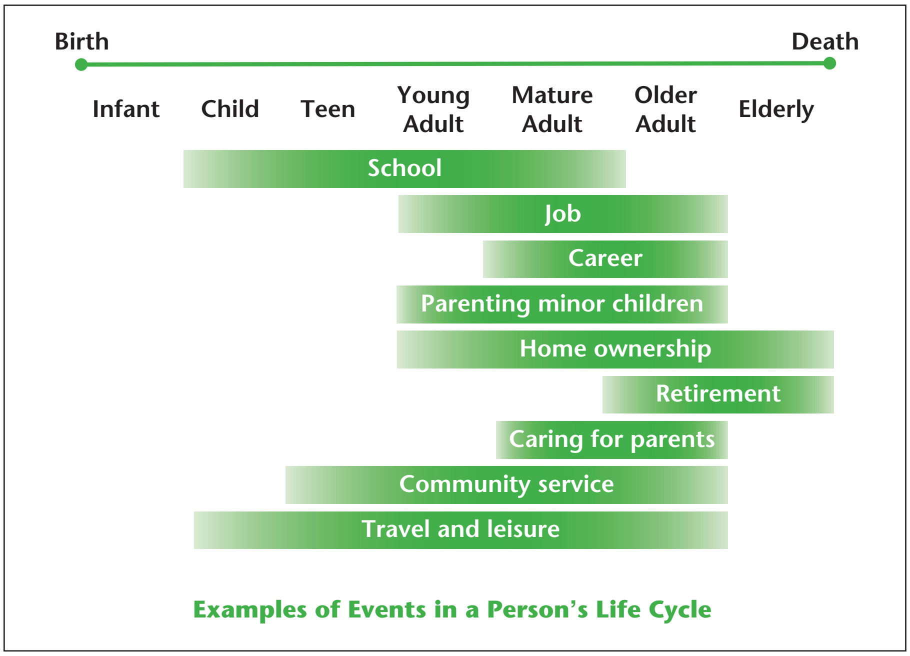

FIGURE 1
Where are you in on the life-span timeline?

life-span goals don't just happen. Successful people create long-term plans for how they can achieve their life-span goals. These plans are called **life-span plans**.

> **CHECKPOINT**
> How do personal goals impact your career choice?

A LIFE-SPAN PLAN FOR NURA

To help you prepare your own life-span plan, consider the example of Nura. She is sixteen years old and a high school student. Like most people her age, she is busy with school and family/social activities. However, she does think about her future including going to college, getting a job, and getting married. She hopes to have a career, a family, and a comfortable home.

Nura's favorite subject in school is art. She has signed up for every art class that she could fit into her schedule. Nura wants a career in the art world, but not as an artist. She likes the idea of working in an art museum or gallery, but she also thinks of herself as an entrepreneur. Nura dreams of owning a gallery where she will showcase and sell the works of local artists.

In addition to continuing to develop her skills as an artist, Nura knows that she will need to learn how to run a business. She also knows she needs to set short- and long-term goals. She needs a plan—a life-span plan.

First Things First

To begin her life-span plan, Nura looked at six areas of her life: education, career, family, finances, community, and retirement. She then identified six central goals that she most wants to achieve over the next 50 years. These goals fit in well with her values, interests, and personality.

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1. Gain training and education needed to work in retail art gallery management.
2. Own and operate a successful retail art gallery.
3. Get married, have children, and own a house and a car.
4. Become financially secure.
5. Be active in the local community.
6. Be able to retire and take up other interests by the age of 60.

Nura realizes that achieving these life-span goals will involve careful planning and many trade-offs. Almost all life-span goals people set require money. To pay for her education, a business of her own, a home, and a secure retirement, she will need to save and invest part of the income she receives during her working life. At times, she may need to borrow funds from others. She will need to construct and follow a budget that allows her to do this. At the present, Nura may decide to limit the amount she spends on clothing and entertainment so she can save more now to pay for college and career-driven goals later. Nura will also need to identify related short-term goals that can help her achieve her more-important life-span goals in the future.

Related Goals

Nura's central life-span goals are related to each other. Saving and investing to achieve financial security, for example, will help her pay for training and later to start a business. If her business is successful, she will be able to afford the house she wants to own. Financial security will also allow Nura to enjoy a few luxuries. For example, Nura would like to visit the U.K. to see the art museums in London. If her business is a success, she will be able to take this trip.

Nura wants to achieve many short- and long-term goals that are not central goals in her life. These include buying

How does Nura's interest in art relate to her life-span plan?

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cars and furniture. Although these goals are important, they aren't among the things Nura cares most about in life, and so they are not listed in her life-span plan. In preparing her life-span plan, Nura listed and evaluated her goals to decide which ones were the most important. The most important goals are part of her life-span plan.

Organizing Goals

Nura organized her life-span goals in a table as shown below. Across the top she placed six categories to represent her six central life-span goals. On the left side she placed periods of time. These started with the next 2 years at the top and went 50 years into the future at the bottom. She then placed her goals according to when she would like to achieve them and how they contribute to her central life-span goals. In this way, she created a life-span plan that she believes will help her accomplish what she wants most in life.

NURA'S LIFE-SPAN PLAN						
TIME	**EDUCATION**	**CAREER**	**FAMILY**	**FINANCES**	**COMMUNITY**	**RETIREMENT**
Next 2 years	Complete high school. Apply to college.	Find a part-time job in an art gallery or museum.	Help parents with younger children.	Save SAR 4,000 each year to help pay for college/career in the future.	Be an active member of my community.	No action is required at this time.
5 years from now	Graduate from college.	Work full time in an art gallery or museum.	Help parents with younger children.	Save and invest income to buy a home.	Teach art at the community center.	Open a retirement account.
10 years from now	Take classes in small business management.	Accept a managerial position at an art gallery.	Get married and buy a small home. Have one child.	Save and invest to buy an art gallery.	Continue teaching art classes.	Continue saving in retirement account.
20 years from now	Travel to the U.K. to see artists' work.	Buy or start an art gallery.	Buy a larger house. Have another child.	Start a fund for children's education.	Continue teaching art classes.	Continue saving in retirement account.
35 years from now	Mentor young artists.	Build a successful business and look for a person to help run it.	Buy a vacation home at the beach.	Increase saving and investments now that children have married and moved out.	Investigate volunteer work I might enjoy.	Continue saving in retirement account.
50 years from now	Learn a new language.	Sell business.	Buy a retirement home in a cooler climate.	Manage investments carefully.	Volunteer to advise people who have small businesses.	Take at least one long trip each year and visit grandchildren.

FIGURE 2

How old will Nura be when she plans to get married?

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Nura feels a sense of satisfaction with her plan. She knows that she will almost surely revise it in the future, but she has a foundation on which to build. She can use her plan to help make decisions now. When she makes her class schedule for next year she will sign up for accounting, business management, and more art classes. She knows what type of work to look for and how to spend and save her income. Because she has definite goals, she is better able to make good spending decisions. Having goals makes it easier not to spend money for things she doesn't really need.

Nura's life-span plan is right for her. It fits her values, personality, and family. Her plan, however, would not be right for most students, including you. You aren't Nura. You have other abilities and interests. Her personality is not your personality. Her family is not your family. You need to make your own life-span plan.

CHECKPOINT
What are the six areas of life that you should consider as you develop a life-span plan?

YOUR OWN LIFE-SPAN PLAN

Near the end of this class you will be asked to prepare a life-span plan for yourself. To do this, you should reflect on what you've learned throughout this course. You will study a variety of topics and finish many activities that you can use to help you complete this assignment. Look for the Life-Span Plan icon in the chapters.

You will also want to consider things about yourself that were not directly covered in this course. The size of family you want to have is important, but will not be discussed in this course. The same is true of where you want to live and the role you wish to play in your community. Preparing your life-span plan will require you to consider all of your values and goals, not just those that are related to businesses and your career choice.

After you accumulate as many useful resources as you can, use these materials as references while you write a list of your goals. Base your goals on what you want from life for yourself, your family, and your community. Sort them according to whether they are short- or long-term goals, and then classify them into overall life-span goals. Place your goals on a grid similar to Nura's to construct your life-span plan.

When you have finished your life-span plan, it would be helpful to ask an experienced person to review your plan with you. A teacher, guidance counselor, or other adult you respect would be a good choice. Discuss your choices and the feasibility of your plan. This person can offer advice and encouragement for achieving your goals.

Making a life-span plan is an important first step. But, it is only a first step. Putting your life-span plan into action can make the difference between just thinking about your future and actually achieving the life-span goals that are most important to you. If you fail to act on your life-span plan, it will only be a piece of paper.

CHECKPOINT
What three life-span goals can be used as the foundation for your own life-span plan?

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Chapter 1

Exploring the World of Business and Economics

1.1 Business and Economic Systems

1.2 Success in Business

1.3 The Business Environment

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Business, Management & Administration

PLANNING A CAREER IN . . .

BUSINESS ECONOMICS

Economists have a significant role in the business world. They gather and analyze information to try to anticipate what economic changes are coming. This is an important task, as businesses and government officials and even consumers use these predictions to make decisions. Most economists work in government agencies, for businesses and business associations, or as researchers and professors in colleges and universities.

Related Job Titles

- Urban and Regional Planner
- Budget Analyst
- Economics Teacher or Professor
- Investment Analyst
- Business Development Advisor
- Field Researcher

Economists working for corporations forecast the size of markets, changes in consumer demand, and changes in sales and costs the businesses are likely to face. They analyze competitors and market share and advise their company on how to plan. Economists pay attention to international markets and business conditions in countries where the company currently operates or plans to expand.

Analyze Career Opportunities in . . .

BUSINESS ECONOMICS

Use library and Internet resources to learn more about careers in corporate economics. Choose one of the job titles listed in the box above and answer the following questions.

1. Identify the minimum educational requirements for the job. Explain other training or education that might be needed for advancement.
2. Is this a career that interests you? Describe how you might use your talents, abilities, and skills in this career.

What it's like to work as a . . . Company Economist

Sarah is on her way to the office at 4 a.m. each morning. As an associate analyst, she helps prepare a morning briefing. She is responsible for tracking changes in the Saudi economy along with the GCC alliance.

Heading into the city by taxi, Sarah checks online to get the latest information about major stock markets. Then she checks the international news services for important stories that might affect the Saudi economy and GCC members. She updates forecast charts and enters notes so she will be ready for the team meeting as soon as she arrives at the office. Her office work is usually finished by 2 p.m. each day, but Sarah continues to check economic information even as she works out at the gym or participates in other leisure activities.

What about you? What do you like and dislike about Sarah's schedule and activities? What do you think happens in the team meetings as Sarah and her colleagues prepare the morning briefing? Why might creative decision making be an important skill for a business economist? How can you improve your creative decision-making ability?

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1.1 Business and Economic Systems

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

1.1.1 Identify and compare types of economic systems.

1.1.2 Identify methods to measure economic performance.

Key Terms

Scarcity	Gross Domestic Product (GDP)
Economic Resources	GDP per Capita
Economic System	Unemployment Rate
Command Economy	Productivity
Market Economy	Personal Income
Traditional Economy	Retail Sales
Mixed Economy	Stock

Focus on REAL LIFE

Ali remembers what it was like to grow up overseas in a farming community in the countryside. "The farmers still work the land with the same methods they have used for generations, and the government tells them what they can and cannot grow," Ali explains to a colleague.

His colleague asks, "What does your family think about you living in the city and working for a multinational company?"

Ali smiles and responds, "My parents were surprised when I told them that the company decides how many of each of our products we will produce each year and then sets the selling price for each of our markets."

Ali has experienced two very different economic systems.

LO 1.1.1

ECONOMIC SYSTEMS

Each day, business activities provide your *needs*, things required to live, such as food, water, clothing, and shelter. Other needs may include education, a career, transportation, and healthcare. In contrast, consumers also demand *wants*, things that add comfort and pleasure to life. These may include technology, a large apartment, or a luxury car.

The Basic Economic Problem

Needs and wants are unlimited while resources are limited. This difference is the *basic economic problem*, which results from scarcity. **Scarcity** means not having enough resources to satisfy every need. Countries with few natural resources or a poor education system may not be able to produce enough products and services for their citizens. If roads, bridges, and railways are not well maintained, people may not be able to easily obtain the variety of products and services found in other areas.

In what ways have bridges, roads, and railways helped to make the Saudi economy stronger?

Economic Resources

How are the goods and services you need and want produced? **Economic resources**, also known as *factors of production,* are the things used to produce goods and services.

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There are three types of economic resources: natural resources, human resources, and capital resources.

Raw materials from nature are *natural resources*. These include oil, minerals, and nutrients in soil. In addition to oil reserves, Saudi Arabia has many natural resources such as gold, iron ore, and copper. Every product that is manufactured requires natural resources of some sort or another.

The people who produce goods and services are *human resources*, for example, farmers, factory workers, managers, truck drivers, salespeople, and store employees. Another vital human resource is the *entrepreneur* who uses resources to create a new product or service.

The tools and equipment needed to convert natural resources into products are *capital resources*. These include buildings, equipment, and supplies as well as the money needed to build a factory, buy vehicles, or purchase computers.

NET KNOWLEDGE

Knowledge makes you a more informed consumer, worker, and citizen. If you can compare quality and prices of products and services, you will make the best use of your money. Go online to identify three websites that help consumers compare competing products and services. Use the information to prepare a table that reports at least four factors that are important for making the best decision.

The Three Economic Questions

To determine how available resources will be used to meet needs and wants, every country must answer: (1) What goods and services will be produced? (2) How will the goods and services be produced? (3) What needs and wants will be satisfied with the goods and services produced?

Types of Economic Systems

Every country makes decisions in different ways. An **economic system** is the method a country uses to answer the three basic economic questions. Government involvement levels in business are one of the major differences among the four types of economic systems.

1. In a **command economy**, resources are owned and controlled by the government, who decides the production, distribution, and consumption levels of goods. They decide how much of the resources will be used to produce goods and services, such as food, schools, and homes. Personal economic choices are usually limited in a command economic system.
2. With a **market economy**, resources are owned and controlled by the people. The three economic questions are answered by individuals through buying and selling in the *marketplace*, the place where goods and services are exchanged, such as a supermarket, the Internet, or a business office. No one directs consumers to make a particular purchase or tells businesses what they must produce in this type of economy where individuals and businesses enjoy the freedom of exchanging goods and services. The government has limited involvement in a market economy.
3. Throughout history, many simple economies operated according to tradition or custom. In a **traditional economy**, goods and services are produced the same way as in the past. Traditional economies are usually found in countries that are less developed and are not yet active in the global economy. The traditional economy is usually centered on meeting the basic needs of people, such as food, clothing, and shelter.

FYI

Oil, natural gas, and even water, one of the most common substances on our planet, are all examples of natural resources under severe pressure from current consumption rates. Another natural resource facing scarcity is sand, which seems infinite in deserts. However, the natural process of making sand is slow, and its rate of production cannot keep up with its consumption by industries such as construction. This may pose a challenge for developing regions like East Africa, where the population is expected to double in the next 30 years.

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4. Modern economic systems can take a variety of forms (including command and market economies). However, the most common in developed nations today is a **mixed economy**, combining elements of the command and market economies with varied degrees of government involvement in the marketplace.

The Saudi Economy

The structure and guiding principles of the Saudi economy are based on Islamic law and Shariah compliance. Saudi Arabia is a mixed economy. The government's role in the economy appears through a number of giant investment initiatives led by the Public Investment Fund and leading companies. Equally, the government is supporting local economic diversification, improving the investment environment to attract foreign investors and reducing dependence on oil, raising the contribution of the private sector, encouraging small and medium enterprises, and enabling the third sector, in order to reach a diversified and sustainable economy.

Work as a TEAM

Your team represents the citizens of a new country deciding on an economic system. You want to establish a successful economy that provides the greatest benefit to its citizens. What information about the country would you need to answer the three economic questions?

CHECKPOINT
What are the main differences among the four main economic systems?

LO 1.1.2

METHODS TO MEASURE ECONOMIC PERFORMANCE

Economic growth refers to an increase in the production of goods and services in an economic system. Different methods can be used to measure the growth of an economy.

Gross Domestic Product

Gross domestic product or **GDP** is the total value of all final goods and services produced in a country for one year. Figure 1-1, compares the GDP of the major trading partners of Saudi Arabia in 2020.

GDP includes four major categories of economic activity:

1. Consumer spending for food, clothing, housing, and other goods and services.
2. Business spending for buildings, equipment, and inventory items.
3. Government spending to pay employees and to buy goods and services.
4. The exports of a country less the imports into the country (net trade balance).

Some goods and services are not included. For example, GDP does not include the value of the work you do for yourself, such as redecorating your home. However, if you were to hire a decoration service, it would be included. Only final goods, such as cars, are counted when measuring GDP. Intermediate goods used in manufacturing, such as steel, fabrics, plastic, and glass are not included. If intermediate goods were counted, the value of them would be counted twice. GDP increases from year to year usually signals that an economy is growing and is healthy.

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Comparing GDP

The more goods and services produced, the healthier an economy is considered to be. Just referring to the total monetary value of GDP as a measure of economic growth does not tell the whole story.

Another way to measure economic growth is **GDP per capita**, or output per person. GDP per capita is calculated by dividing GDP by the total population (see Figure 1-1). For example, suppose that there is no change in GDP this year compared to last year; however, the population of the country increases. The same output would have to be divided among more people.

An increase in GDP per capita means that an economy is growing. A decrease usually means that an economy is less productive.

COMPARISON OF TOTAL GDP AND GDP PER CAPITA IN SELECTED COUNTRIES (2020)

COUNTRY	TOTAL GDP (SAR)	GDP PER CAPITA (SAR)
Saudi Arabia	5.79 trillion	166,125
China	86.29 trillion	61,500
United States	74.43 trillion	225,750
India	31.66 trillion	22,875
Japan	19.59 trillion	155,250
Germany	15.90 trillion	190,875
France	10.62 trillion	157,500
Turkey	8.98 trillion	106,500
Italy	8.71 trillion	146,250
Egypt	4.59 trillion	45,000
United Arab Emirates	2.46 trillion	251,625
Singapore	1.991 trillion	350,250
Kuwait	787.5 billion	187,125
Bahrain	262.5 billion	153,375

Source: CIA World Factbook

FIGURE 1-1
Which country has the highest GDP per capita? The lowest?

Labor Activities

Workers contribute to an economy in several ways. First, their labor activities create goods and services. Additionally, the wages earned are then spent, creating a demand for various products. As of 2021, more than 16 million people work in Saudi Arabia (source: World Bank). These members of the labor force are employed in thousands of different jobs.

One economic statistic of concern is the **unemployment rate**. The unemployment rate is the portion of people in the labor force who are not working. Unemployment rates vary from year to year and in different areas of the country. One of the causes of unemployment is reduced demand for the goods and services provided by various workers. If fewer people travel by plane, for example, airlines will need fewer workers.

In many countries, an accurate measurement of the labor force is difficult to obtain. Poor economic conditions may require family members of all ages to work on farms or in home factories to provide an income to cover basic living expenses.

Work as a TEAM

The GDP of a country presents information about the economic output of that country. Work as a team to prepare a list of drawbacks resulting from only looking at GDP when evaluating the economic progress of a nation. What aspects of economic growth may not be reflected in the GDP of a country?

Which industries do you think have high employment rates in Saudi Arabia?

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Productivity

A vital source of economic growth is **productivity**, the production output in relation to a unit of input, such as a worker. The increase of output vs. the input is a sign of effective productivity. Improvements in capital resources (equipment and technology), worker training, and management techniques can result in more output per worker.

NET KNOWLEDGE

Online sources provide data on economic activities. Conduct a search for a topic, such as GDP, unemployment, or productivity. Obtain recent information for this economic statistic. Prepare a brief written summary of your findings and describe how this information might affect consumers or businesses in Saudi Arabia.

Over time, the growth rate for labor productivity varies. Increases in productivity occur in some years. Sometimes, productivity may decrease due to situations such as a pandemic. When productivity increases, workers improve the standard of living in a nation while improving their life situation.

Technology and increased efficiency can improve productivity. *Specialization of labor* is the training of workers to do a specific task. This strategy allows for *division of labor,* in which workers are assigned specific elements of a work process to improve efficiency and productivity. Expanded use of new technology usually requires advanced job training and new skills.

Saudi Vision 2030 aims to increase productivity in Saudi Arabia by: (1) strengthening the education system for improved business skills, and (2) attracting highly skilled workers from around the world.

FYI

Technology continues to change the way work is done. Today's jobs require less than 1% of the total muscle power used before the Industrial Revolution; however, much greater levels of education and mental skills are necessary.

Consumer Spending

The money you earn and spend is an important factor for economic growth. Each day, people receive money from their participation in production. **Personal income** refers to salaries and wages, as well as investment income and government payments to individuals. These funds are used to buy needed goods and services.

Measured each month, **retail sales** are the goods and services bought by consumers. Retail sales are an indicator of consumer spending patterns in the economy. Increasing retail sales usually points toward economic growth. The main items whose sales are measured for estimating retail sales include automobiles, building materials, furniture, gasoline, and clothing, as well as purchases from restaurants and stores.

Investment Activities

Investing for the future takes many different forms. An individual's time in school is an investment for their future. When companies buy buildings and equipment, they are also investing in their future.

Capital spending refers to money spent by a business for an item that will be used over a long period. *Capital projects* involve spending by businesses for items such as land, buildings, equipment, and new product development. The money for capital projects

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comes from four main sources: personal savings, stock investments, bonds and *sukuk* in Saudi Arabia.

One of the major sources of investment funds is *personal savings*. Companies use money deposited in a bank or other financial institution. These funds provide the money necessary for buying equipment or creating new products. Using this part of individuals' and families' income, which is not allocated for consumption and is saved in a bank, is a main element in financing an investment. The *savings rate* of a country is an important factor for economic growth. A low savings rate for a country can cause concerns for the future business activities and the economic situation in general because of the greater reliance/dependency on external financing.

Corporations are a type of business organization. Many people invest by becoming part owners. **Stock** represents ownership in a company or governmental entity. Stock ownership is commonly called *equity*. The value of shares of stock is affected by many factors. For example, if a company has higher earnings, more people will want to buy its stock. This will usually cause the value to increase.

Another investment activity involves *sukuk* and *bonds* in which money is borrowed by a company or governmental entity. Sukuk are Shariah-compliant financial certificates with which investors get partial ownership until the maturity date, and the money is repaid.

These investment options will help to diversify the Saudi economy with expanded global business activities and increasing employment opportunities.

Life-Span Plan

Calculate your savings rate (percent of your current income that you save). Do you believe you save enough of your income? Explain how saving is related to people achieving their life-span goals. Set a short-term saving goal that you could achieve now to help you eventually reach future life-span goals.

CHECKPOINT
How can productivity be increased?

1.1 ASSESSMENT

Key Concepts

Determine the best answer.

1. An example of a natural resource is
   - **a.** sunlight
   - **b.** a computer programmer
   - **c.** a fishing net
   - **d.** money
2. In which of the following economic systems is the government's role greatest?
   - **a.** mixed
   - **b.** traditional
   - **c.** market
   - **d.** command
3. Which of the following would not be included in GDP?
   - **a.** exports to other countries
   - **b.** purchases of computers by government
   - **c.** automobiles purchased
   - **d.** dinner preparation for your family

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4. Productivity would likely increase because of
   a. higher taxes
   b. expanded production technology
   c. decreased training programs
   d. lower interest rates

Make Academic Connections

5. **Economics** List the three types of economic resources. Choose a product from a local or global company and describe how each type of economic resource is needed and used in its production.

6. **Writing** Locate an article that illustrates the concepts of unlimited wants and needs and limited resources. Write a two-paragraph summary of the article that incorporates several of the key terms from the lesson.

7. **Visual Art** Create a collage or photo essay to illustrate how *specialization of labor* and *division of labor* can increase productivity.

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LIFE/WORK SKILLS

INFORMATION LITERACY

Your abilities are more than a collection of your experiences. Whether the goal is to improve a business or your own performance, you need to make sound decisions based on the best information available. Research skills are needed for effective decision making.

Research is a systematic, objective study to establish facts and principles. The research process begins with a question or problem and results in a possible answer that may become further research. Use these steps when conducting research.

Formulate a research question. What is the problem you are facing or what is the issue you are trying to resolve? The question should be as specific as possible and relate to an important personal or business issue.

Gather and review information related to the question. Determine if others have studied the same problem and if they have reported on the results of their study. This step usually involves a careful search of online resources and library information.

Separate fact from opinion. Effective research relies on objective data. Opinions may provide interesting ideas to consider but should not be relied on for answers to your question. Consider if the sources of information are credible and if the information provided is factual.

Propose a hypothesis. A hypothesis is a prediction about the answer to your research question. The hypothesis can be based on the information gathered, your experience, or your beliefs. You will conduct a study to gather information that will either support the hypothesis or determine that it is wrong.

Collect data to test the hypothesis. Researchers carefully design studies to gather information related to the research question and hypothesis. The common methods of collecting data are surveys, observations, and experiments.

Analyze the data. After data has been collected, organize and analyze it using statistical procedures. Careful review of the results of the data analysis will provide evidence to support or disprove the hypothesis.

Report the results. Document and report the results of your research. A well-organized and carefully written report will help others understand the research and will provide evidence that the research was objective.

Put the results into practice. You began the research process to answer a question or solve a problem. You need to apply what you learned and determine if what you learned makes a difference. No matter the results, you will want to continue to conduct research and study the research of others. This action will help you make sound decisions and give you confidence in your knowledge and abilities.

Think Critically

1. Why should you try to avoid basing your actions on opinions rather than facts?
2. Do you believe some questions can be answered by just gathering and reviewing existing information rather than collecting new data? Why or why not?
3. Describe work situations that would require research skills.

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1.2 Success in Business

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Learning Outcomes

Once you have completed this lesson, you should be able to:

1.2.1 Describe actions for success in business.

1.2.2 Explain common business activities along with risks and rewards.

Key Terms

Technical Skills

General Career Skills

Risk

Focus on REAL LIFE

Khalid and Abdullah are planning to visit one of the new Italian restaurants in their area—Ristorante Italia and Mamma's Pizzeria. Since they are both on a limited budget, they are always careful about how they spend their money.

Mamma's Pizzeria is famous for delicious pizza and excellent service. Ristorante Italia has more menu items including pizza, pasta, salads, and sandwiches. Khalid and Abdullah both feel the food is good but doesn't have that authentic Italian flavor. Often, the restaurant is crowded, and the service is slow. Because Mamma's is known for its excellent pizza, the pizza prices are higher than at Ristorante Italia.

If you were going to eat with Khalid and Abdullah, 1) how would you decide which restaurant to choose, and 2) what actions would you recommend for continued success of these businesses?

LO 1.2.1

SUCCESS IN BUSINESS

The foundation of an individual's business success will likely involve developing two main types of skills: technical skills and general career skills. Through schoolwork and other experiences, an individual has the opportunity to develop these needed career competencies.

Why do most jobs need a mixture of soft and hard skills?

Technical Skills

Specialized career training, also referred to as *hard skills,* are the **technical skills** needed for a specific profession. This training involves competencies in fields such as information technology, accounting, law, engineering, healthcare, education, marketing, real estate, insurance, and law enforcement. Preparation for careers in one of more of these fields will not only require entry-level knowledge but also ongoing education.

General Career Skills

In addition to technical training, employers seek workers with **general career skills**, which are abilities that can be adapted to varied work situations. These talents are often called *soft skills.* While some of these abilities

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are acquired in school, others require experience in work settings.

The general career skills most often observed in successful workers include:

Work as a TEAM

As a team, select a job that students might consider in the future. Create a description of the education, training, and skills that would be necessary for success in that job.

- A professional manner that includes honesty, integrity, dependability, wise time management, and a commitment to work hard.
- A cooperative attitude with an ability to work well with others in varied settings.
- Taking initiative to overcome obstacles, meet challenges, and adapt to change.
- A desire for ongoing learning, along with knowledge of technology, especially when working remotely.
- Creative problem solving and research skills in team settings.
- Effective written and oral communication skills.
- A basic knowledge of accounting, finance, marketing, and other administrative and managerial topics.

Career Experience

It is a good idea to plan to start developing career skills while in school. Workforce abilities may be obtained in several ways. *Work-study programs*, sometimes called cooperative education, combine school with work-related experience. These programs provide an opportunity to develop on-the-job skills. Not only do individuals learn about technical aspects of the job, but they also learn how to interact in work settings.

Internships involve work experience in organizations while learning about a career field. Internships for careers in accounting, finance, marketing, and communications are available with many organizations.

Part-time work can provide valuable experience. It allows individuals to learn if they will enjoy a career field. Part-time work experience can also help individuals make contacts. These people can guide them and offer support throughout their working life.

Involvement in *community service* is another type of career experience to develop work habits and organizational skills. Through volunteering, individuals may also acquire an interest in a business area, which could be an indication for their career path.

FYI When applying for an internship or job, knowing about the organization and the available position is vital. Successful job candidates clearly connect their training and experiences to the needs of the company.

Class assignments provide work-related experiences. Research and communication skills are developed when preparing reports and oral presentations. Team projects offer an opportunity to work with others, a vital skill for every career. Participation in clubs and organizations can develop skills such as goal setting, planning, supervising, and delegating responsibility.

Management and Leadership

As individuals gain career experience, they may aspire to a management or leadership position. These advanced positions will require an ability to plan, organize, lead, and motivate people, as well as manage the productive resources of the company.

Leadership skills are vital for managers. The ability to think strategically, communicate a vision, make decisions, and delegate work will be required. Studies reveal that successful leaders possess integrity, empathy, gratitude, creativity, a cooperative nature, and strong listening and questioning skills.

Decision Making

One skill that is often needed in work activities, as well as in an individual's personal life, is decision making. As shown in Figure 1-2, a process can be used to guide decision-making activities.

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1. Define the problem.
2. Identify the choices.
3. Evaluate the advantages and disadvantages of each choice.
4. Choose the best alternative.
5. Act on the choice.
6. Review the decision.

FIGURE 1-2 THE DECISION-MAKING PROCESS
How does using the decision-making process help individuals and businesses make better choices?

Most of the choices a person makes will require that they give up something else. This is known as a *trade-off*. For example, money spent on going to the cinema can't be used for something else, such as going to an amusement park. The decision-making process can help an individual select the best and most satisfying alternative.

CHECKPOINT
What is the difference between technical skills and general career skills?

Write an essay that describes how you could use the decision-making process to select a college major for next year that will help you achieve your life-span goals. In what other ways will the decision-making process benefit you in the future?

LO 1.2.2

BUSINESS ACTIVITIES, RISKS, AND REWARDS

As a person selects a career path, they need to consider the types of businesses that provide employment opportunities. These include:

- *Manufacturing businesses* convert raw materials into finished products. These goods include *industrial goods*, such as plastic parts and machinery, used by other companies, and *consumer goods* that are sold to individuals and households.
- *Wholesaling businesses* buy items in large quantities to resell in smaller amounts to retailers. Wholesalers, also known as *distributors* or *intermediaries*, are the link between manufacturers and retailers.
- *Retailing businesses* sell directly to consumers who are the end users. Retailers include stores, shops, and online sellers that sell everything from food and clothing to electronics and personal care products.
- *Service businesses* provide professional, technical, and personal services for a price. These may include medical and legal assistance, accounting and tax services, auto repairs, tutoring, and house cleaning.
- *Agricultural businesses* grow crops and raise livestock for food and for use in other products.*Aquaculture* involves breeding, raising, and harvesting fish, shellfish, and aquatic plants.
- *Extracting businesses* take resources from the environment and convert them for use by manufacturers. These include mining, forestry, quarrying, and oil drilling companies.

Which types of businesses do you think Saudi Vision 2030 should focus on to boost the Saudi Arabian economy in the future?

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While each type of business operates in Saudi Arabia, some provide a larger portion to GDP than others. In an attempt to be less dependent on one or two economic sectors, Saudi Vision 2030 proposes to further diversify the economy with expansion of modern and innovative business types, for example, the renewable energy sector.

Business Risks

Whenever a company implements a business decision, risk is involved, for example, the organization faces the risk of consumers not buying its products or a supplier not delivering materials on time. **Risk** is the uncertainty of an event or outcome. Every company faces potential risks—from employee theft to natural disasters. Risks may be viewed in these categories:

Why is it a good idea for businesses to be aware of the risks they might face?

Geographic Risks Changing weather can destroy agricultural crops. A rough terrain can result in transportation difficulties. These and other geographic factors create risks for businesses.

Political-Legal Risk Business regulations vary from country to country. Packaging laws, import taxes, and labor safety standards are examples of political-legal factors that can affect operating costs and business success.

Social-Cultural Risk Cultural differences such as traditions, religious beliefs, and family relationships can create uncertainty when doing business in different settings. Business activities are conducted differently in different parts of the world. Failure to be sensitive to cultural variations can result in business failure even if all other actions are appropriate.

Economic Risk Higher prices, changing currency values, and low consumer spending create economic uncertainty. Economic conditions have ups and downs affecting the demand for a company's goods and services.

Operational Risks The day-to-day activities of a company also create risks. Failure to innovate or to meet the needs of customers can cause lost profits. A disruption in the supply chain or distribution process also means lower business. Higher prices of production inputs or a shortage of raw materials are other possible risks.

Unexpected Risks

While many risks can be anticipated to some degree and planned for, unforeseen situations are also a source of risk. Increased competition from new companies and products can occur. A cyber-attack, pandemic, or health crisis are some unexpected risks for which every business must be prepared.

When attempting to reduce risks, companies may consider these actions:
(1) continually monitor business activities, sales, costs, and other financial data
(2) do business in several markets to reduce dependence on just a few customers
(3) offer a variety of products and services to maintain diverse revenue sources.

FYI To prepare for unexpected risks, a company may simulate a shipping disaster or other situations that interrupt receiving raw materials or shipping products to customers. During these simulations, employees must be ready with backup plans. These risk management activities prepare companies to access alternative solutions.

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Business Rewards

Despite many risks, businesses are created and operate to gain various benefits. First, making a profit and earning a living is fundamental. Business owners invest resources and take risks to make a profit. Next, providing goods and services contributes to the quality of life in society. To be successful, a company must pay close attention to the needs and experiences of consumers.

Finally, business owners, investors, managers, and workers gain personal satisfaction through working together with government to produce and distribute items that allow people to a fulfilling life.

CHECKPOINT ✓
How does geography create risks for businesses?

1.2 ASSESSMENT

Key Concepts

Determine the best answer.

1. An example of a technical career skill would be
- **a.** teamwork
- **b.** creative problem solving
- **c.** software coding
- **d.** dependability

2. The first step in the decision-making process involves
- **a.** defining the problem
- **b.** setting a goal
- **c.** identifying the choices
- **d.** evaluating alternatives

3. _____ businesses are companies that sell directly to consumers.
- **a.** Wholesaling
- **b.** Retailing
- **c.** Extracting
- **d.** Manufacturing

4. Rising consumer prices would be an example of a(n) _____ risk.
- **a.** cultural
- **b.** economic
- **c.** operational
- **d.** geographic

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Make Academic Connections

5. **Communication** Talk to a family member or family friend about their work situation in Saudi Arabia or elsewhere. Ask about their education, training, current work activities, and career advice for young people. Prepare a short oral or written report with a summary of your interview.

6. **Writing** Locate an article that discusses qualities of effective managers and leaders. Write a two-paragraph summary of the article; also include actions you might take to develop your leadership skills.

7. **Visual Art** Create a visual presentation (poster or slides) showing the various risks faced by Saudi businesses.

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Business Insight

Emerging Technology for Business Activities

Artificial intelligence, robotics, drones, cloud services, 3D printing, and other new types of technology are changing how you earn, save, spend, and invest. The use of apps, websites, and mobile devices for banking and financial activities is called *fintech* (financial technology).

Saudi Fintech is an initiative of the Saudi Central Bank in collaboration with the Capital Market Authority started in April 2018. Its aim is to develop financial technology in Saudi Arabia and enhance its role in national, social, and economical development.

For investors, *robo-advisors* offer advice based on a person's income, assets, debt, financial goals, and risk tolerance. *Digital wallets,* also called *mobile wallets,* are apps that allow storage and use of credit, debit, and loyalty cards. Other fintech features include peer-to-peer (P2P) money transfers, as well as storing ID cards, transit tickets, and event tickets. Cardless banking and contactless in-store payments—using *tap and go* and *tap and pay*—reduce debit and credit card use for improved health and safety.

Fintech also provides improved financial assistance with automatic savings features, cash-back rewards, and guidance to build an emergency fund. Some platforms rate customer progress on their savings, spending, insurance, and credit use. Prepaid cards are available that allow parents to control and monitor children's spending while teaching wise money management.

Fintech is also changing the insurance industry with online start-up companies and *InsurTech* apps that process applications, claims, and other transactions. Artificial intelligence algorithms quickly provide insurance customers with rate quotes and personalized services, especially among younger clients.

One additional Saudi fintech element is *RegTech* (regulatory technology) to communicate and process local and global compliance standards. These apps and websites focus on anti-money laundering andfinancial fraud.

Think Critically

1. Locate an article to identify how future business activities might be conducted by consumers and businesses in Saudi Arabia with the use of an app, artificial intelligence, or other technology. Prepare a brief summary of the article.
2. How might expanded technology for business activities affect career opportunities and needed workplace skills?

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1.3 The Business Environment

Link to digital lesson

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Learning Outcomes

Once you have completed this lesson, you should be able to:

1.3.1 Understand the phases of the business cycle.

1.3.2 Outline the four types of competition.

1.3.3 Explain the business environment and future business challenges.

Key Terms

Business Cycle	Inflation
Prosperity	Interest Rates
Recession	Perfect (Pure) Competition
Depression	Monopolistic Competition
Recovery	Oligopoly
	Monopoly

Focus on REAL LIFE

Do you have more knowledge than you had five years ago? Are you able to play a sport better than you did 10 years ago? As your skills and abilities increase, you will depend less on others and begin to plan for your future. You might be concerned about earning and saving money. You will likely think about how your grades will affect plans for continuing your education. Various elements of your life change—both up and down. Your grades are likely to vary based on study habits and class efforts. The size of your savings account changes based on earning, saving, and spending.

Just as you change, the economy changes, too. Ups and downs occur for business activities. As economic conditions improve, quality of life in a country improves. In contrast, downward economic trends result in difficulties for workers and consumers.

LO 1.3.1

THE BUSINESS CYCLE

Economic and business activities move in cycles. All nations experience good times and bad times in terms of their economies. Fortunately, over time, bad conditions disappear, and improved conditions return.

Looking at the economic changes during history shows a pattern of good times to bad times and back to good times. This movement of the economy from one condition to another and back again is called a **business cycle**. Business cycles are the recurring ups and downs of GDP. Business cycles have four phases: prosperity, recession, depression, and recovery.

What stage of the business cycle do you think green energy is currently at?

Prosperity

At the peak of the business cycle is prosperity. **Prosperity** is a period in which most people who want to work are working, businesses produce goods and services in record numbers, wages are good, and the rate of GDP growth increases.

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The demand for goods and services is high. This period is usually the high point of the business cycle. Prosperity, though, does not go on forever. The economy eventually cools off and activity slows down.

Recession

When the economy slows down, a phase of the business cycle known as recession occurs. **Recession** is a period in which demand begins to decrease, businesses lower production, unemployment begins to rise, and GDP growth slows.

In addition to cars, what other types of products do people buy less of during hard times?

This downturn may not be too serious or last very long. However, it often signals trouble for some workers in related businesses. For example, if people have less money to spend, they buy fewer cars. Car manufacturers make fewer cars and may lay off workers. Companies that make batteries, tires, and other parts also may need to lay off workers. This drop in related businesses is called the *ripple effect.*

Eventually, production weakens throughout the economy, and total output declines. Some recessions last for long periods as fewer factors of production are used and total demand falls.

Depression

If a recession deepens and spreads throughout the entire economy, a nation and the rest of the world may move into the third phase, depression. **Depression** is a long period of high unemployment, weak consumer sales, and business failures.

GDP falls rapidly during a depression. Fortunately, the world economy has not had a depression for more than 80 years. The period from 1929 to 1941 in history is referred to as the Great Depression. Over 25% of the labor force in most countries was unemployed. Many people could not afford to satisfy even their basic needs.

Recovery

Economic difficulties do not go on forever. A welcome phase of the business cycle, known as recovery, begins. **Recovery** is the phase in which unemployment begins to decrease, demand for goods and services increases, and GDP begins to rise again.

During recovery, people gain employment. Consumers regain confidence about their futures and begin buying again. Recovery may be slow or fast. As it continues, the economy moves back into prosperity.

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Inflation and Interest Rates

Two economic factors that often change during the business cycle are inflation and interest rates. **Inflation** is a continuous and influential increase in the level of prices. With inflation, buying power decreases. For example, if prices increased 5% during the last year, items that cost SAR 100 then would now cost SAR 105. This means it now takes more money to buy the same amount of goods and services.

FYI During the 1980s and 1990s, some South American countries had an annual inflation rate as high as 300 to 400%. This is known as *hyperinflation*. In 1985, Bolivia had an annual inflation rate of more than 12,000%. More recently, in 2020, the African nation of Zimbabwe experienced an annual inflation rate exceeding 557%.

Inflation occurs when the demand for goods and services is greater than the supply. When a large supply of money is spent for goods that are in short supply, prices increase. Most people think inflation is harmful since higher prices occur. Therefore, workers must earn more money to maintain the same buying power.

The opposite of inflation is *deflation*, which means a decrease in the level of prices. This usually occurs with recession and depression. While prices of products are lower, people have less money to buy them. Deflation may also occur for specific products. In recent years, the cost of computers and electronic products has declined due to improved technology.

In simple terms, **interest rates** represent the cost of money. Like everything else, money has a price. Interest rates have a strong influence on business activities. Companies and governments that borrow money are affected by interest rates. Higher interest rates mean higher business costs.

Each day, interest rates change as the supply and demand for money changes. As amounts saved increase, interest rates tend to decline. This occurs because more funds are available. When borrowing by consumers, businesses, and government increases, interest rates will likely rise.

CHECKPOINT ✓
What are the four phases of the business cycle?

What is the current inflation rate in Saudi Arabia?

LO 1.3.2

TYPES OF COMPETITION

In a market economy, individuals and businesses make the decisions about what to produce, how to produce it, and what price to charge for the product. Competition among businesses is necessary to ensure fairness for consumers and producers. As shown in Figure 1-3, four types of competitive situations are common, known as the four types of market economy.

Type of Competition	Number of Business Firms or Suppliers	Real-World Examples
1. Perfect	Many	Corn, wheat, peanuts, many agricultural products
2. Monopolistic	Many	Clothing, furniture
3. Oligopoly	Few	Automobiles
4. Monopoly	One	Software protected by copyright, many local public utilities

FIGURE 1-3 FOUR DIFFERENT TYPES OF COMPETITION
How does the number of businesses in a market affect competition?

Perfect Competition

Perfect (or pure) competition exists when there are many buyers and sellers of a product. No single buyer or seller can affect the price of the product. Common examples of perfect competition are corn, wheat, peanuts, and other agricultural products. The main characteristics of perfect competition are:

1. The market involves similar or identical products.
2. No restrictions exist on new companies entering the market.
3. All sellers offer basically the same product.
4. All buyers and sellers know everything about the market, such as the prices charged by all sellers.
5. The market cannot be affected by any one buyer or seller.

In perfect competition, the forces of supply and demand determine the *market price*. *Supply* is the quantity of an item that businesses are willing and able to provide. If consumers want an item and are willing to pay a price that allows a business to make a profit, businesses will provide the product. However, if the supply of a product is greater than consumers want, businesses will probably reduce supply or discontinue the product.

The supply of a product affects the price. With a huge supply of the crops and livestock raised on farms, prices will probably remain low. However, if a drought reduces the amount of corn grown, the price of corn will likely increase. The price of a product with new technology will likely be high until other companies start to offer a similar item.

Demand is the quantity of a good or service that consumers are willing and able to buy. If many consumers want (or demand) a particular good or service, its price will likely go up. When customers see several products that they believe will satisfy a particular want or need, demand for any one of those products will not be as high. Customers will be willing to switch from one product to another if the price of one is much higher than the others.

Monopolistic Competition

Monopolistic competition is a market situation with many buyers and numerous sellers, offering products that are very similar, but not identical, and all satisfy the same need. Examples of products sold in this type of competitive market include clothing, soap, furniture, and many consumer items.

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Each seller attempts to make its item different from others with unique product features, a famous brand name, unique packaging, or services such as free delivery or a lifetime warranty. These attempts to create a distinct product image in the minds of consumers are referred to as *product differentiation*.

Oligopoly

An **oligopoly** is an industry situation with a few large sellers. Companies are required to make a sizable investment to compete in the market. Examples of oligopolies are the automobile, airline, car rental, and farm implement industries. With few sellers, the actions of one competitor can affect the others. For example, if an automobile manufacturer offers special discounts, other car companies will likely do the same to avoid losing customers.

Monopoly

A **monopoly** is a market with only one seller, and barriers keep other companies from entering the industry. In a monopoly, there is no close substitute for the product or service. With only one company as the supplier of the item, the business might charge a very high price. However, at some high price, customers would likely stop buying, even in the case of urgently needed products like medicine.

In many countries, governments might create a monopoly to provide services needed by everyone, such as gas, water, or electricity. These monopolies are usually regulated by various government agencies to avoid excessive prices.

A legal monopoly, also called a *limited monopoly*, is created when a government issues a franchise, license, copyright, patent, or trademark. These actions protect the owners' *intellectual property* and prevent unauthorized use by others who have not shared in the time, effort, and expense required for its development, or who don't have the required experience and capabilities. For example, computer software companies can obtain a legal monopoly for the sale of programs designed for specific word processing or spreadsheet activities.

CHECKPOINT
How do the four forms of competition differ?

What type of competition exists in the construction industry?

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LO 1.3.3

THE BUSINESS ENVIRONMENT AND ECONOMIC CHALLENGES

The future of business for every country requires knowledge and a plan. The process starts with researching the resources, economic conditions, and local and global business opportunities of the nation. Technology, educated workers, and business systems will be the foundation for economic success.

To achieve business growth and an improved quality of life, the plan must emphasize increased training for job skills, enhanced use of technology, and wise capital allocation. In addition, companies must possess the ability to adapt to consumer preferences. Using creative methods to develop innovative solutions, expanded output of goods and services will result. Also possible are actions to address economic concerns such as hunger, disease, unsafe water, pollution, and poverty.

Saudi Vision 2030

Saudi Vision 2030 is driven by Saudi Arabia's own strengths. The country's position in the Islamic world will enable it to play its leading role in supporting the Arab and Islamic nations, and local and international investment will be key to diversifying the economy and achieving its sustainability. In addition, the strategic location of Saudi Arabia will enable it to be a hub connecting the three continents of the world (Africa, Asia, and Europe). The vision is based on three main axes: a vibrant society, a thriving economy, and an ambitious nation. Its goals will be achieved through:

- building an education system aligned with market needs
- creating paths for business success for small and medium enterprises, and large corporations
- developing investment tools to diversify the economy with new job opportunities
- privatizing some government services
- attracting the finest talent

Each of these actions will result in an improved business environment for citizens in both the private and public sectors. This vision is designed to guide all participants in the economy to take their responsibilities and the necessary initiatives to face challenges and seize opportunities.

Subeconomies

Within the main economy of a country, there are often *subeconomies* that provide goods, services, and career opportunities. When faced with unexpected economic, social, or health crises, businesses must adapt to a new economic environment. Innovation and community connections are essential for every business, but especially small businesses. These enterprises range from home-based sales and consulting services to small manufacturing companies and online technology support. In recent years, several new opportunities for business start-ups have emerged, including:

- *Social entrepreneurs* who blend usual business practices with innovation to address concerns such as hunger, disease, poverty, and education
- The *gig economy,* which includes independent contractors and freelancers with flexibility of projects and work locations
- The *shared economy,* which emphasizes renting or borrowing products rather than buying
- The *circular economy,* which involves environmental activities to recover, restore, recycle, reuse, and repurpose resources. Emphasis is on renewable energy and innovations that minimize waste and ecological impact; also referred to as the *green economy*

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- The *blue economy*, which is designed to preserve and regenerate oceans and the marine environment, with an emphasis on sustainability for fisheries, aquaculture, and maritime tourism

One additional subeconomy, often overlooked, is the *informal economy*. Home-based businesses, street vendors, and family farms are an important source of employment and income for many people around the world. Occurring alongside formal companies, these unreported transactions are significant in many countries. Informal economic activities can range from 10 to 20% of the economy in some nations to more than 60% in others.

No one can predict the future of an economy with certainty. To maintain or increase a country's standard of living and to prevent unemployment, government, businesses, and the third sector must coordinate their efforts. This cooperation can result in creating jobs and providing for the needs and wants of people.

CHECKPOINT ✓
What economic challenges will countries face in the future?

1.3 ASSESSMENT

Key Concepts

Determine the best answer.

1. True or False. Deflation results in lower buying power of money.
2. True or False. Supply is the quantity of a good or service that a consumer is willing and able to buy at a particular price.
3. The phase of the business cycle in which unemployment is highest is
   a. recession
   b. recovery
   c. prosperity
   d. depression
4. When a few large companies control an industry, this is referred to as
   a. pure competition
   b. monopolistic competition
   c. oligopoly
   d. monopoly
5. As competition increases, prices
   a. usually increase as well
   b. are not affected so will usually not change
   c. will usually decrease
   d. There is no way to predict what will happen to prices due to competition.

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Make Academic Connections

6. **Research** View the Saudi Vision 2030 website (www.vision2030.gov.sa) and select a topic that interests you. Create a brief report with actions local businesses might take to achieve the vision communicated for this topic.

7. **Visual Communication** In monopolistic competition, companies offer products that are very similar, but not identical. Product differentiation is used to create a distinct image. Select three brands of the same food item or consumer product from local and global companies. Prepare a report on the actions of each company to create an image different from competitors.

8. **Geography** Obtain information about a country with an economy dependent on the ocean or other water sources for its industries and jobs. Create a poster or other presentation to visually show the industries, employment, and other business activities related to the marine environment of the country.

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Chapter 1

Assessment

Review Business Concepts

1.1 Business and Economic Systems

- Goods and services that are necessary for us to live are called *needs*. Goods and services that add comfort and pleasure to life are *wants*.
- Economic resources are the things available to use to produce goods and services. Economic resources are also known as factors of production. The three kinds of economic resources are natural resources, human resources, and capital resources.
- All countries must answer three economic questions: What goods and services will be produced? How will the goods and services be produced? What needs and wants will be satisfied with the goods and services produced?
- In a command economy, most resources are owned and controlled by the government. In a market economy, resources are owned and controlled by the people of the country. In a traditional economy, goods and services are produced the way they have always been done. A mixed economy combines elements of command and market economies.
- Gross domestic product (GDP) is the total market value of all final goods and services produced in a country during one year. GDP per capita is calculated by dividing GDP by the total population.
- The labor force consists of people actively working or seeking work. The unemployment rate is the portion of people in the labor force who are not working. Productivity is the production output in relation to a unit of input, such as a worker.
- Personal income refers to salaries and wages, as well as investment income and government payments to individuals. Retail sales measure the sales of goods and services bought by consumers.
- Investment activities that promote economic growth include personal savings, buying stock as ownership in a corporation, and purchasing bonds from businesses and government.

1.2 Success in Business

- Business success involves two main types of skills: technical skills and general career skills.
- A person can obtain career experience through work-study programs, internships, part-time employment, volunteering, and school activities.
- Management and leadership positions require an ability to plan, organize, lead, and motivate people, as well as manage the productive resources of the company.
- The types of businesses that provide employment opportunities include manufacturing, wholesaling, retailing, services, agricultural and aquaculture, and extracting.
- The main business risks a company may encounter are geographic, political-legal, social-cultural, economic, operational, and unexpected risks.
- The rewards associated with owning and running a business include making a profit, earning a living, contributing to the quality of life in society, and gaining personal satisfaction.

1.3 The Business Environment

- The movement of the economy from good times to bad and back again is called a business cycle. A business cycle has four phases: prosperity, recession, depression, and recovery.
- Inflation is a continuous and influential rise in the level of prices. Inflation can occur when the demand for goods and services is greater than the supply. Deflation is a decrease in the general price level.

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- Interest rates represent the cost of money. Interest rates in an economy are affected by the supply and demand for money.
- The four types of competitive situations are perfect (pure) competition, monopolistic competition, oligopoly, and monopoly.
- Supply is the quantity of a good or service that businesses are willing and able to provide. Demand is the quantity of a good or service that consumers are willing and able to buy.
- The future of business for every country requires knowledge and a plan to identify the resources, economic conditions, and local and global business opportunities of the nation. Business growth will depend on increased training for job skills, enhanced use of technology, and wise capital allocation.

Think Critically About Business

1. Identify five products or services that could be either a need or a want. Provide an example for each that illustrates when it would be considered a need and when it would be considered a want.

2. Select a business with which you are familiar. Describe factors of production used by the business that fit within each of the three kinds of economic resources.

3. Find an article that discusses the scarcity of a product, service, or natural resource. Write a summary of the article in which you identify who is affected by the scarcity and the effect it is having on businesses and consumers.

4. Develop a table that compares the answers to the three economic questions for a command economy, a market economy, and a traditional economy.

5. "GDP is the best measurement of a country's economy." Explain why you agree or disagree with this statement.

6. The GDP of Country A is SAR 400,000. The GDP of Country B is SAR 800,000. Does this mean that the per capita output of Country B is about twice that of Country A? Explain.

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7. Name three factors that can contribute to increased output of goods and services in a country. Explain how these factors can improve productivity.

8. Retail sales is a measure of items bought by consumers. What are some examples of goods and services you have bought that would be included in retail sales?

9. What actions would you recommend to a person who is considering investing in the stock market?

10. For success in business, explain why a person needs both technical skills and general career skills.

11. Identify an important decision you might need to make in the near future, such as selecting a college or career or making a major purchase. Illustrate how you would complete each step in the decision-making process (see Figure 1-2) for this decision.

12. Describe actions a business might take to reduce risks.

13. Suppose that many auto and steel plants close in a country. Thousands of workers lose their jobs in a short period. If the country had previously been enjoying prosperous times, what phase of the business cycle might it be heading into now? Describe other conditions that might begin to occur.

14. Why is a high rate of inflation generally considered harmful to an economy?

15. Describe actions businesses and government might take in each phase of the business cycle.

16. What actions might be appropriate to maintain fair competition among businesses?

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17. Review recent news reports of products and services where price has been affected by supply and demand factors. Write a report using those examples that discusses the effect of supply and demand on prices.

___

___

18. Give an example of a world economy problem and suggest a solution for it.

___

___

Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
19.	business cycle		a. The method a country uses to answer the three economic questions.
20.	command economy		b. Things available to use to produce goods and services.
21.	depression		c. A market situation with many buyers and sellers of a product.
22.	economic resources		d. Not having enough resources to satisfy every need.
23.	economic system		e. A competitive situation with a few large sellers.
24.	GDP per capita		f. Economy in which resources are owned and controlled by the government.
25.	general career skills		g. Economy in which goods and services are produced the way they have always been done.
26.	gross domestic product (GDP)		h. Economy that combines elements of the command and market economies.
27.	inflation		i. A market with only one seller.
28.	market economy		j. Career abilities that can be adapted to varied work situations, also called *soft skills*.
29.	mixed economy		k. Economy in which the resources are owned and controlled by the people of the country.
30.	monopolistic competition		l. A market situation with many buyers and numerous sellers, offering products that are very similar, but not identical.
31.	monopoly		m. The movement of an economy from one condition to another and back again.
32.	oligopoly		n. The total value of all final goods and services produced in a country in one year.
33.	perfect (pure) competition		o. Specialized career training, also referred to as *hard skills*, needed for a specific profession.
34.	personal income		p. A phase marked by a long period of high unemployment, weak consumer sales, and business failures.
35.	productivity		q. Salaries and wages, as well as investment income and government payments to individuals.
36.	prosperity		r. The GDP divided by the total population of a country.

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37.	recession		**s.** Production output in relation to a unit of input, such as a worker.
38.	recovery		**t.** The phase in which unemployment decreases, demand for goods and services increases, and GDP begins to rise.
39.	retail sales		**u.** The uncertainty of an event or outcome.
40.	risk		**v.** An increase in the general price level.
41.	scarcity		**w.** The portion of people in the labor force who are not working.
42.	technical skills		**x.** The sales of items bought by consumers.
43.	traditional economy		**y.** A period in which unemployment is low, businesses produce many goods and services, and wages are good.
44.	unemployment rate		**z.** A period in which demand, production, and GDP growth decrease and unemployment begins to rise.

Make Academic Connections

45. Research Dual economies often exist in countries with a modern market economy in urban areas and a traditional economy in rural areas. Select a country and conduct online research to locate contrasting photos of the two economies in that country. What concerns might exist because of the dual economies?

46. Technology Describe ways in which computers and other technology might influence GDP in Saudi Arabia and other countries.

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47. **Geography** Select five countries. Create a map showing various economic statistics for each country. Explain reasons for differences among the countries.

48. **Science** Various scientific developments can result in increased productivity for a business. Research a recent scientific discovery or innovation from a Saudi company. Prepare a poster or other visual to demonstrate how this might increase worker productivity.

49. **Economics** Why are capital projects important for the success of a company? Select a company, and list the capital projects that would be necessary for its operations. What type of Saudi company might most be in need of capital projects?

50. **Communication** Describe a business decision situation in which the manager did not make use of appropriate leadership actions. Then, explain what the manager should have done differently.

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51. **Culture** Around the world, differences exist for greetings, foods, family relationships, decision-making activities, and other cultural elements. Select a country and conduct research about its culture. Prepare a brief report or visual presentation to communicate how these cultural differences might affect business activities when doing business with that country.

52. **Communication** Prepare a poster or other visual presentation with photos or other visuals from Saudi companies or products that communicate examples of the four types of competition.

53. **History** Conduct research about *hyperinflation*. What caused high inflation in various countries? What actions were taken to solve this problem?

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Make Your Case

In determining GDP, only final goods and services are included. This avoids having some items counted more than once. For example, a mining company sells iron ore to a steel-producing firm. That firm sells the steel to an auto manufacturer who uses it to produce a car. The iron ore, converted to steel, is counted once—in the price paid for the car, the final product. Carefully read the following list of goods and services produced in our economy and then answer the questions.

- **a.** Electric toaster oven bought as a gift
- **b.** Telephone service installed in a government office
- **c.** Fiberglass sold to a company for use in making boats
- **d.** Grooming services for your pet
- **e.** Paper sold to a newspaper publishing company
- **f.** Computer paid for by a city government
- **g.** Computer bought for your family's use
- **h.** Corn bought by a food-processing firm

54. Which of these items should be listed as a good and counted in GDP? Give reasons for your answer.

55. Which of these items should be listed as a service and counted in GDP? Give reasons for your answer.

Interactions and Connections

56. Conduct online research and talk to local business-people to identify either the actions companies use to increase labor productivity or how changes in consumer spending might affect the availability of jobs. Write a report to show your findings.

57. Create an oral presentation or audio file with a summary of economic factors affecting various career fields in the Saudi economy. Describe how this information could affect your choice of career.

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Marketing Strategy

A restaurant has been operating for five years and it is located along a major highway near a major city. The restaurant was built during an economic boom and business has grown steadily during the first five years of operation. A recent economic recession has dramatically changed the business environment. Unemployment has increased and the business is down 25% from last year. The prices of menu items at the diner range from 18 SAR to 34 SAR. The restaurant accepts cash and credit cards for payment.

The restaurant has advertised in the local newspaper and counted heavily on word-of-mouth advertising. It is open each day Sunday to Friday from 7 a.m. until 9 p.m. You have been hired as a consultant to help the restaurant increase its business. You are challenged to describe the marketing strategy for the restaurant considering its location, menu items and prices, hours of operation, and promotion. Your plan must cover all performance indicators.

Performance Indicators Evaluated

- Describe the economic impact of a recession on business.
- Explain customer buying behavior.
- Identify a company's unique selling proposition.
- Identify product opportunities.
- Explain the types of promotion.

Think Critically

1. How can the restaurant's location be used to attract customers?
2. What promotions and advertisements might the restaurant use to bring in more customers?

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Chapter 2
Business Organization

2.1 Business in the Saudi Economy

2.2 Forms of Business Ownership

2.3 Organizational Structure for Businesses

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Business, Management & Administration

PLANNING A CAREER IN . . .

CORPORATE LEADERSHIP

Rising to the top of one of the world's largest corporations seems like the dream job in business. The chief executive officer (CEO) of a corporation may make several million Riyals a year in salary and bonuses, have a large office with dozens of support staff, travel worldwide on a corporate jet, and make daily decisions that directly influence the success of the company. Corporate executives also work long hours and face the competing expectations of stockholders, the board of directors, employees, and customers. While CEOs receive many perks and benefits, their success or failure may be determined more by economic conditions, government regulations, and the stock market than their own decisions and abilities.

Related Job Titles

- **Chief Executive Officer**
- **Chief Operating Officer**
- **President**

A corporation's goals and policies are established by the top executives. The executives meet frequently to set direction, review company performance, and establish policy. They then delegate work to the organization's managers and employees. They know that they are ultimately responsible and accountable for the performance of the company.

Analyze Career Opportunities in . . .

CORPORATE LEADERSHIP

Use library and Internet resources to learn more about careers in corporate leadership. Choose one of the job titles listed in the box above and answer the following questions.

1. How would you describe the physical work environment for jobs in this field?
2. Is this a career that interests you? Describe how you might use your talents, abilities, and skills in this career.

What it's like to work as a . . . Corporate Executive

Most days, a CEO's schedule is packed. It may start with an hour of reading before attending a conference with the heads of other companies and government officials. Lunch is eaten with the management team to review the company's financial performance, followed by a press conference. Half an hour is spent on the telephone talking to a member of the Shura Council about a communications law, discussing labor contract negotiations with the vice president of human resources, and speaking with a manufacturer in Japan about a proposed joint venture. After dinner, it is off to the airport for a flight from Riyadh to Abha to oversee the opening of a new manufacturing facility. The flight is spent studying reports, completing correspondence, and watching a video briefing on the Abha development.

What about you? How would you prepare for the stress of being a corporate executive? Do you believe that the work justifies the high salary and benefits?

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2.1 Business in the Saudi Economy

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

2.1.1 Describe the transforming Saudi economy.

2.1.2 Discuss the role of business in the Saudi economy.

2.1.3 Describe three major types of businesses.

Key Terms

Intermediaries

Service Business

Focus on REAL LIFE

Saamiya loves digital photography. Last year she turned her hobby into a professional photography business. She uses photo editing software to produce digital images. Saamiya has started to wonder if she might be able to expand her business. Saamiya has a friend who can help sell the images to newspapers, magazines, advertising agencies, and other businesses.

Saamiya isn't sure if her friend should be an employee or a partner. To expand, the business will need to purchase new equipment and develop sales brochures.

Saamiya expressed her feelings to her mother. "I love my photography business. Would I like it as much if I had to share control with a partner? I wonder if I can afford to purchase new equipment by myself?"

LO 2.1.1

TRANSFORMING THE SAUDI ECONOMY

The Saudi economy has witnessed a major transformation, since the 2016 announcement of "Saudi Vision 2030"; The Kingdom has begun implementing a wide range of initiatives and reforms in various sectors to prepare the country for a prosperous and successful long-term future.

After King Abdulaziz Al-Saud, may Allah have mercy on him, established the Third Saudi State in 1932, and the subsequent discovery of significant natural oil and gas deposits, the country transformed from an economy based largely on agriculture, cattle herding, and simple handicrafts to one dominated by oil exports. The kingdom's successful unification combined with this abundance of oil and other sought-after minerals helped Saudi Arabia to prosper and strengthen its global position. Saudi Arabia is one of the top 20 economies in the world.

How would achieving Saudi Vision 2030's goal to improve youth readiness for the labor market impact the percentage of foreign workers in the Kingdom?

Over the years, Saudi Arabia's economic growth in the oil industry and expansion of its service sector have been largely supported by foreign workers, with expatriates accounting for a significant proportion of the Saudi workforce.

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Investing in the Future

While oil production remains a considerable source of economic strength in the Kingdom of Saudi Arabia, a large reliance upon any one resource can inevitably present challenges as a result of fluctuations in the international market. During a global downturn, such as the worldwide Covid-19 pandemic, for example, international demand for oil can decrease and prices can fall. Saudi Vision 2030 has therefore determined a need for building a strong economy that does not bet on price fluctuations or the economic crisis in external markets."

> **NET KNOWLEDGE**
>
> The General Authority for Statistics collects and reports detailed information on the status of the work force nationwide. Access the www.stats.gov.sa website. Locate the 'Labor Market Statistics' section in the 'Social Statistics' menu to find out information about employment. How can you use that information to make education and career decisions in the next few years?

Saudi Vision 2030 states that diversification of the Saudi economy "is vital for its sustainability", noting: "Although oil and gas are essential pillars of our economy, we have begun expanding our investments into additional sectors". The "ambitious yet achievable blueprint" for Saudi Arabia's future is underpinned by a range of measures to facilitate economic reform.

Saudi Vision 2030 aims to reduce the unemployment rate from 11.6% to 7%. In support of this goal, the government is addressing the balance between domestic and foreign workers. Initiatives include the establishment of the Job Creation and Anti-Unemployment Commission, to encourage and prepare Saudi citizens to enter employment. The Saudi nationalization scheme, Nitaqat, requires private sector businesses to employ a specified ratio of Saudi nationals according to their particular category and relevant criteria. Another key facet of the employment plan is "to increase women's participation in the workforce from 22% to 30%." This is already taking effect, with many Saudi women entering new professions in the business world.

Saudi Vision 2030 recognizes that success ultimately relies upon engaging and incentivizing the next generation to play their part, highlighting that "more than half of the Saudi population is below the age of 25 years. We will take advantage of this demographic dividend by harnessing our youth's energy and by expanding entrepreneurship and enterprise opportunities." Resources are being invested into education, including the National Labor Gateway (TAQAT) to ensure that Saudi students and graduates are equipped with the necessary skills, knowledge, and expertise to compete successfully with other candidates in the global employment market.

> **CHECKPOINT**
>
> List several initiatives that will transform the Saudi workforce in the next decade.

LO 2.1.2

BUSINESS AND THE ECONOMY

Businesses make the goods and services you use each day. That includes the products and services used by other businesses as well as those needed by individual consumers.

Nature of Saudi Business

The nature of business is changing in Saudi Arabia. As part of its diversification strategy and to promote a healthy business environment, the government is in the process of privatizing many state-owned assets, including, for example, selling shares in the energy company, Saudi Aramco. Equally, enterprise is encouraged with a target set to "increase SME [small- and medium-sized enterprises] contribution to GDP [gross domestic product] from 20% to 35%." According to the Saudi Vision 2030 statement, "We will improve the business environment, so that our economy grows and flourishes, driving healthier employment opportunities for citizens and long-term prosperity for all."

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Roles of Business

Businesses play several key roles in the Saudi economy. The most important role of businesses is to make and distribute raw materials, products, and services needed by consumers, government, and other businesses. Businesses produce the oil, energy, technology, clothing, food, and other items you use every day.

Businesses provide employment for millions of people. Employee wages are used to purchase goods and services. Profits earned by businesses are used to compensate owners and investors.

Impact on a Community

A business can have an important impact on the community in which it operates. When a new business opens, it pays wages to its workers. It also buys goods and services from other businesses in the area. This results in additional money being introduced into the community. Employees and businesses in turn spend much of the money to purchase things they need.

The money spent may result in the need for more employees in the community. They will need housing, automobiles, food, and other community services.

When a large business opens in an area, other businesses will often locate there to support the larger business. Small businesses may be started to meet the needs of the residents and other businesses. Successful businesses contribute to more jobs, more income, and a thriving economy in the communities where they operate.

Business Activities

Businesses may be large or small, simple or complex. A business might operate in only one community. It may have many locations across Saudi Arabia or around the world. Although there are many types and sizes of businesses, all firms perform six basic activities.

Generating Ideas A business begins with a new idea. Someone must have an idea for a new product or service or a new way to carry out a business process. A business must continue to improve and develop new ideas in order to remain successful. Businesses must remain competitive with other firms that sell similar goods and services. Many companies have research and development departments that works full-time to discover new product, service, and operating ideas.

Raising Capital Businesses need financial resources to operate. They use these financial resources to buy buildings and equipment, hire and train workers, and complete day-to-day business operations. A large amount of capital is needed to start most businesses. Some capital comes from owners. Most is obtained through loans from financial institutions or from investors. Initiatives are in place to support small and medium enterprises.

A business needs more capital as it develops and grows. Some of that capital will come from reinvested profits. A business will need to continue to borrow from banks and attract additional investors to have enough money for ongoing operations.

Employing and Training Personnel Businesses need human resources. Even businesses that begin with no employees other than the owner will add part- and full-time employees as they grow. Businesses have procedures for recruiting, hiring, and training employees. They pay wages and benefits. New employees receive training in order to perform their jobs correctly. Further training will be necessary when procedures change, new tasks are added, or technology is introduced.

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Buying Goods and Services All businesses buy goods and services. Businesses use many of the purchases for their own operations. Other purchases are resold. Manufacturers of automobiles must buy steel, aluminum, and plastics to be used to form the frame and body of new cars. They will also purchase tires, batteries, airbags, and air conditioning units that will be installed on the production line.

Work as a TEAM

Monshaat is the Small and Medium Enterprises General Authority. As a group, visit Monshaat's website (https://www.monshaat.gov.sa/) and locate some of the financial assistance available to you as a business owner.

Business Insight

Digitization

Today it is noticeable that many of our transactions have become digital. The digitization revolution has contributed to bringing products and services directly to our smart devices and facilitating communication through various modern digital channels and means.

The launch of Saudi Vision 2030 has stimulated a significant investment in 'e-government': the use of websites and portals to enable both government employees and citizens to access vital services and systems online. E-government is helping to improve the efficiency of many services, by enabling them to be accessed remotely and at more flexible times than would be possible in standard business opening hours.

Digitization is also helping to level the playing field for small- and medium-sized enterprises. It enables access to online tools, services, and resources that might otherwise not be available to smaller businesses with less capital to invest. Web-related services enable businesses of any size to operate in an international marketplace and hence expand into new territories with relatively little outlay. Doctors engage in telemedicine, teachers digitize lectures and courses, and businesses save money by teleconferencing.

Think Critically

1. Identify a product or service that is accessed digitally through a device. Research how this product or service was accessed before it was digitized. How does digitization change the delivery of this product or service?
2. Describe a product or service that you believe will be digitized in the future. Explain how users will benefit from this change.

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How does marketing affect a consumer's decision to purchase a product?

A retailer buys an assortment of products to sell to customers. It must also buy the display equipment, computers, and cleaning supplies used to operate the business. Businesses purchase an array of services from other companies. These include advertising, legal and accounting services, lawn care and building maintenance, and security.

Marketing Goods and Services Marketing refers to the activities directed at providing the goods and services wanted by a business's customers. Without marketing, even the best products and services may remain unsold. Businesses need to understand and perform many marketing activities. They must satisfy customers who usually can choose to buy from competitors offering similar products and services.

Maintaining Business Records All businesses must have some type of record-keeping system. Owners and managers need records to track performance and make decisions. Customers need information about orders and payments. Businesses are required by government to keep records and submit information. Today, technology helps make record keeping easy and accurate. With computer technology, business owners and employees can quickly access information needed to understand business performance and solve problems.

CHECKPOINT ✓
What are the six basic activities completed by all businesses?

LO 2.1.3

TYPES OF BUSINESSES

You use a variety of businesses to buy the things you want and need. There are typically three major categories of businesses—producers, intermediaries, and service businesses.

Producers

Producers create the products and services used by individuals and other businesses. They are responsible for using resources to make something that is needed by others. Businesses that take resources from nature for direct consumption or for use in developing other products are *extractors*. Extractors pump oil, mine coal, or cut timber. *Farmers* cultivate land and use other natural resources to grow crops and raise livestock for consumption. *Manufacturers* get supplies from other producers and convert them into products. They sell their products to consumers and other businesses.

Business activities start with producers. A builder obtains glass, cement, steel, carpet, and paint to construct a factory or office building. A cereal manufacturer buys wheat and oats, sugar, and dried fruit as well as cardboard, glue, and ink to process and packaged food.

Intermediaries

Intermediaries are businesses involved in selling the goods and services of producers to consumers and other businesses. The most common types of intermediaries are retailers and wholesalers. Many other businesses focus on one or a few activities that assist in distributing and selling products and services. Specialized intermediaries include transportation companies, advertising agencies, storage centers, sales offices, and data-processing centers.

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Service Businesses

Many businesses do not make products. They offer something that is intangible, meaning it has no physical qualities. A **service business** is a business that provides services requested by customers. It does not offer products for sale. Service businesses include dentists, physicians, and lawyers as well as painters and furniture movers. New types of service businesses are Internet service providers, web designers, and online travel agents. Businesses as well as final consumers use services. A customer might contact an international trade specialist to help it set up a sale to a new customer. A communications firm could design and install a new phone system for large telemarketing businesses.

Service businesses are a fast growing part of the economy. More than 70% of all Saudi employment is now in service-producing businesses. While you often hear about low-pay and low-skill service jobs, there are many new businesses offering professional and technical services requiring highly-educated employees, such as lawyers, doctors, professional accountants, and financial analysts.

CHECKPOINT
How does a manufacturer differ from an extractor?

2.1 ASSESSMENT

Key Concepts

Determine the best answer.

1. Which of the following is not an official objective for transforming the Saudi economy?
   a. diversifying into a wide range of business sectors
   b. reducing unemployment
   c. ceasing oil production
   d. increasing women's participation in the workforce

2. Which of the following is not one of the common activities of all businesses?
   a. producing goods and services
   b. employing and training personnel
   c. marketing goods and services
   d. maintaining business records

3. A retailer is an example of a(n)
   a. extractor
   b. producer
   c. intermediary
   d. service business

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Make Academic Connections

4. **Culture** Visit the Saudi Vision 2030 website (www.vision2030.gov.sa). Explain the role that Saudi culture is playing in shaping the Vision and its goals.

5. **Visual Arts** Select a product that involves all of the types of businesses in its production and marketing. Draw an illustration that shows each business and its role in the successful production and sale of the product. Title your illustration and label the component parts.

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2.2 Forms of Business Ownership

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

2.2.1 Describe the three major forms of business ownership.

2.2.2 Determine when each form of business ownership is most appropriate.

2.2.3 Recognize other specialized business ownership forms.

Key Terms

Proprietorship
Partnership
Corporation
Partnership Agreement
Articles of Incorporation
Franchise

Focus on REAL LIFE

Bilal keyed in the ticker symbol SECO at his favorite financial website. He was checking the listing of the stock he owned—Saudi Electricity Company.

Bilal's grandparents had given him five shares of stock in Saudi Electricity Company when he was born. He didn't get interested in it until recently when he learned more about the stock market. Now he knew he was an owner of the electrical power. The success of the company determined the value of his ownership. While the stock price had gone up and down, it was now at its highest point since he began following it.

LO 2.2.1

BUSINESS OWNERSHIP FORMS

Many people think they would like to own a business. The chance to be in control, make decisions, and invest money to make a profit is challenging and exciting. Thousands of people are business owners. The amount of control they have, how decisions are made, the sources of money for the business, and control over profits is not the same for every business owner. The form of ownership affects each of those aspects of the business.

In general, there are three major forms of business ownership—proprietorship, partnership, and corporation—plus several other specialized forms of ownership.

Proprietorship

A **proprietorship** is a business owned and run by just one person. In Saudi Arabia, a sole proprietorship is sometimes referred to as an establishment. In 2017, there were about one million establishments in the Kingdom (Source: General Authority for Statistics, 2017).

The proprietorship is the easiest form of business to start and end. There are very few legal requirements regarding the business ownership or capital needs that must be met.

What are the advantages and disadvantages of owning your own business?

Life-Span Plan

Is owning a business something you might want to explore as you plan your future? What kind of businesses might you consider? What steps do you need to take now to make owning a business part of your life-span plan?

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Most businesses are organized as proprietorships. However, in general, proprietorships have a very small percentage of business revenues.

Many individuals favor the proprietorship form of ownership. It gives them sole control over all business decisions. The owner receives all profits made by the business. He or she can determine how those profits are used. The owner is also responsible for all debts of the business. If the business fails, the owner has almost no shelter from creditors. Any money and other assets owned by the proprietor, whether used in the business or not, can be claimed by creditors to pay the business debts.

Partnership

A **partnership** is a business owned and controlled by two or more people who have entered into an agreement. A partnership is very similar to a proprietorship in several ways. It is quite easy to start. The owners are both responsible for key business decisions and functions. The partners share both investments and profits based on the terms of the partnership agreement. Each partner is liable for all of the debts of the business should it fail.

Corporation

A **corporation** is a separate legal entity formed by documents filed with the concerned authorities. It could be owned by one or more shareholders and managed by a board of directors. Most corporations have several owners who invest in the business by purchasing shares of stock. Corporations are more difficult to form than either proprietorships or partnerships. They must also meet more legal requirements. Not all owners have direct involvement in decision making about business functions. They will not have access to profits unless the board of directors approves it. Corporations protect the liability of stockholders to only the amount of money they have invested.

CHECKPOINT ✓
What are the differences between the three main forms of business ownership?

LO 2.2.2

CHOOSING A FORM OF BUSINESS OWNERSHIP

When a new business is started, the owner should carefully consider the form of ownership. While it is possible to change the form of ownership for an existing business, it is best to decide which form to use both for the long-term future of the business as well as for its first few years.

Choosing a Proprietorship

Most businesses begin as a proprietorship. They remain in that form as long as the sole owner operates the business. Often people choose to start a business because they prefer the freedom of working for themselves rather than for another person. They want to be in total control of the business. The 2021/2022 Global Entrepreneurship Monitor report states that in Saudi Arabia, over 90% of adults (aged 18–64) felt it was easy to start a business in the country. Many new business owners have limited knowledge of the forms of ownership and want to start their businesses in the simplest way. Some people form a business from a hobby or operate a business on a part-time basis. They may expand the business over a few years while spending little time thinking about other ways the business could be organized.

In general, a proprietorship is easy. An individual can begin buying and selling as a business and they don't even need a business name. However, they may need to obtain required government licenses and permits. In most countries around the world, the proprietor will need to

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account for income and expenses. They will need to register the name with the relevant government department. For example, in Saudi Arabia, a proprietorship has to be registered with the Ministry of Commerce.

Work as a TEAM

Businesses achieve goals through teamwork. Think of teammates you would like to work with. Compare the unique interests and skills of each member of your team. Identify possible businesses that could be formed as a partnership by combining the talents of two or more team members.

For people who want total independence, do not want to be exposed to significant government regulation, want to be in control of all business decisions, and are willing to take on the entire risk of a business, the proprietorship offers an effective form of ownership. For a person who wants to expand the business, is willing to share control and decision-making in return for additional resources and reduced risk, and wants some protection for money invested, other forms of ownership are better.

Choosing a Partnership

A partnership is a bit more complex and formal than a proprietorship. In many countries, a partnership can be formed by the verbal agreement of two or more people. It is usually better to have a written partnership agreement. The **partnership agreement** is a written agreement among all owners. It details the rules and procedures that guide ownership and operations. It typically identifies the business name, the investments, and other contributions of each partner. The agreement shows how profits and losses will be divided among the partners. It defines the authority and responsibilities granted to each person and how the partnership can be dissolved. Most developed countries require that partnerships register a business name as well as the name of each person in the partnership.

The advantage of a partnership is that two or more people can contribute to the investment needed to start a business and provide the expertise required to run it. At the same time, each partner is responsible for decisions made by all other partners. There is no protection for the personal assets of any partner. In many countries, including Saudi Arabia, all partners are fully responsible for the debts of the partnership. If the business fails, each person can lose much more than the amount of his/her original investment. If a partner chooses to leave the partnership or dies, the partnership normally can be dissolved.

How might a partnership be more advantageous than a proprietorship?

A partnership is a good ownership form for people who share an idea for a business. They want to cooperate in managing and investing in the business. It is the easiest form for people who work well together and want to share the risks and rewards of the business. It has the same liability of a proprietorship and presents problems if other people want to join the partnership or if it needs to be dissolved.

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Choosing a Corporation

Most people think of corporations as very large businesses. Indeed, corporations are often a popular form of ownership for large businesses. Corporations are subject to many more laws and are more difficult to form than either proprietorships or partnerships. They offer a number of advantages to the owners as well.

A corporation is treated as though it were an "individual" by governments. It must follow the laws of the country in which it is organized. To form a corporation, you must file articles of incorporation with the appropriate government office. The **articles of incorporation** is a written legal document that defines ownership and operating procedures and conditions for the business. Each country has specific information that must be included. Most countries usually provide a form for this purpose. The business must create *corporate bylaws*, or the operating procedures for the corporation. It must name a *board of directors*, the people who will make the major policy and financial decisions for the business. The corporation also issues shares of stock to investors and determines whether future stock shares will be distributed or sold. Examples of large corporations in Saudi Arabia include Saudi Aramco, Al Rajhi Bank, and SABIC.

Even though a corporation is more difficult to form and is subject to more government rules, it offers several advantages to owners. The liability of any owner is limited to the amount of money invested. The amount of debt of the business does not matter. People can invest in the business and receive some of the profit without having to take part in the day-to-day management and operations. It is easy for a corporation to expand. Ownership can change with the sale of stock.

Disadvantages of corporate ownership are that decision making is shared among managers, the board of directors, and shareholders. Many more records are required and more laws regulate operations than for other forms of ownership. In many countries, because corporations are treated as individuals by governments, they must pay corporate taxes on profits earned. However, in Saudi Arabia, income tax is applied only to foreign investment companies operating in the Kingdom, or to foreign partners in the case of partnership companies.

CHECKPOINT
Which form of business ownership is the most complex and difficult to form?

LO 2.2.3

OTHER FORMS OF OWNERSHIP

Most businesses are organized as one of the three common forms just discussed. However, there are other choices of ownership. Some are specialized forms of partnerships and corporations. Others are totally unique forms.

Specialized Partnerships and Corporations

In a general partnership, all partners take part in ownership and operation of the business. A *limited liability partnership* identifies some investors who cannot lose more than the amount of their investment. This type of partnership is difficult and costly to establish. A *joint venture* is a unique business organized by two or more other businesses to operate for a limited time and for a specific project. It is a type of partnership. For example, in 2017, Dussur and GE signed a joint venture agreement for gas turbine manufacturing worth approximately SAR 1 billion. This type of agreement highlights the contributions Saudi companies are making towards realizing Saudi Vision 2030 (source: official website of Dussur).

A *nonprofit* (or *not-for-profit*) *corporation* is a group of people who join to do some activity that benefits the public. Whereas most corporations are formed with the goal of making a profit

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for the owners or investors, nonprofit corporations are not. This type of company exists for educational or charitable purposes and the money it earns must be retained by the organization. Nonprofits work in areas such as education, health care, charity, or the arts, for example, the King Salman Humanitarian Aid and Relief Center, and Mawaddah Women's Charity Association. Unlike for-profit corporations, nonprofit corporations are free from corporate income taxes. They can raise funds by receiving grants and donations from individuals and businesses. As with other corporations, they must organize as a corporation. The government must approve their purpose and operations.

Cooperatives and Franchises

Sometimes a group of people forms a cooperative to provide goods and services that they all need. A *cooperative* is owned by members, serves their needs, and is managed in their interest. Members form a consumer cooperative so that they can purchase goods and services more cheaply as a group than they could individually. A business cooperative forms to market the products produced by members or to purchase products needed by the members. Large numbers of small businesses will have greater bargaining power than the individual businesses.

A **franchise** is a written contract granting permission to operate a business to sell products and services in a set way. The company that owns the product or service and grants the rights to another business is known as the *franchiser*. The company or person purchasing the rights to run the business is the *franchisee*. A franchise is a way to expand a business using the investments of others while maintaining control over the name, product quality, and operating procedures.

What forms of corporate business are most common in your community?

The franchisee maintains day-to-day operations and receives the profits of the business. It pays a fee and percentage of the profits to the franchiser in return for operating assistance. A popular and successful franchise in Saudi Arabia is Subway. Shahia Food Limited Company operates around 400 Dunkin' Donuts outlets in Saudi Arabia.

CHECKPOINT
What are the other specialized forms of business ownership?

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2.2 ASSESSMENT

Key Concepts

Determine the best answer.

1. The form of ownership that gives one person sole control over all business decisions is the
   a. proprietorship
   b. partnership
   c. corporation
   d. franchise
2. True or False. All investors in a general partnership have full liability for the debts of the business.
3. The people who make the major policy and financial decisions in a corporation are the
   a. investors
   b. board of directors
   c. managers
   d. owners
4. A special form of business organization that combines advantages of a corporation and a partnership is a
   a. franchise
   b. nonprofit corporation
   c. cooperative
   d. limited liability partnership

Make Academic Connections

5. **Communication** Two friends who want to open a store to sell the work of local artists ask you to explain the advantages and disadvantages of the three common forms of business ownership. Write a memo outlining the advantages and disadvantages. Include a list of questions that might help your friends make a decision.

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6. **Research** Go online to find information on a franchise opportunity related to a current career interest. Prepare a table that describes the franchise, the products or services, the investment requirements, and the benefits of becoming a franchisee.

7. **Read** Find a news article about cooperatives or a specific cooperative. Read the article and write a reaction. Respond as if you were posting an online comment for other readers to see. Prepare a properly formatted citation for the article. Possible sources include printed and online versions of newspapers or magazines. You should also consider independent online sources that produce original content.

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LIFE/WORK SKILLS

CRITICAL THINKING AND PROBLEM SOLVING

Knowing how to understand financial stock data is an important life skill. People who own stock or are interested in buying stock must be able to evaluate those stocks. Historically, stock data was found in stock tables available in most daily newspapers. Websites are now the primary sources of stock data. Websites can track the daily performance of the stocks and provide historical trends. For example, the Saudi stock exchange is called Tadawul, and the Tadawul All Share Index (TASI) monitors how companies listed in Tadawul perform. This information is available on www.saudiexchange.sa. To determine how well a company is performing, investors must track more than just the stock price over time.

Investors need to decide whether to maintain their investment, buy additional stock, or sell and move their money to another investment. To make these decisions, investors will look at the following stock data.

Symbol (SYM) is the company symbol or abbreviation that identifies the firm issuing the stock. The symbol is an abbreviation for a longer company name. For example, the symbol for Southern Province Cement Co. is SPCC. In this example, the symbol is XMPL.

Dividends are the amount of money approved by the board of directors of the company to be paid to stockholders. Dividends may be indicated as DIV in a table or D on a chart. Dividends are another way that stockholders earn a return on their investment in addition to gains in the value of the stock. High growth stocks may pay low dividends. Utility stocks may not have high growth, but they often pay steady dividends.

Yield (YLD) is the current rate of return on all capital invested in the company. This allows easier comparison of the performance of companies with different stock prices. The yield is calculated by dividing the total annual dividends by the stock price.

$$\frac{\text{Dividends}}{\text{Price}} = \frac{\text{SAR } 5.82}{\text{SAR } 127.00} = 4.58\% \text{ yield}$$

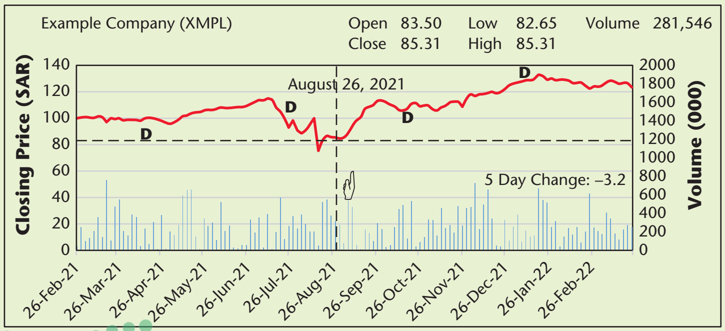
Price to Earnings (PE) Ratio is the comparison of the price per share to the earnings per share. It shows how much an investor is willing to pay for SAR 1 of current earnings by one share of stock. The ratio is calculated by dividing the price by the earnings per share (EPS). In the example, XMPL stock is selling for more than 10 times the current earnings.

$$\frac{\text{Price}}{\text{EPS}} = \frac{\text{SAR } 127.00}{\text{SAR } 12.06} = 10.53 \text{ PE}$$

Many websites allow for stock charting. These charts can provide daily or historical data. Many charts can show historic data by placing a cursor over the stock price line. In this example, the cursor is over August 26, 2021. The display may show the **HI-LO** data representing the highest and lowest prices of all trades made during the time period such as daily HI-LO or 52 week HI-LO. Some charts will feature daily bars showing highs and lows. Charts can show opening (O) and the last price at which a trade was made during the trading day or clos ing (C) price. In the XMPL example, SAR 85.31 is the closing price.

Percent Change is the percent difference between the current closing price and a previous closing price. The stock price five days ago was SAR 127.97 and today's closing price is SAR 124, the percent change listed shows a negative 3.2%.

Volume shows the volume of shares traded at the date in the chart. Volume gives information on the change in demand for the company's shares. In the example, 281,546 shares of XMPL were traded.



Think Critically

1. What information from the stock data do you think is most important for a stock owner to watch on a regular basis? What is the least important?
2. How does stock data help in comparing the performance of two stocks with very different prices?

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2.3 Organizational Structure for Businesses

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

2.3.1 Explain important principles in designing an effective organization.

2.3.2 Compare alternative organizational structures for businesses.

Key Terms

Mission Statement
Goal
Policies
Procedures
Organization Chart

Focus on REAL LIFE

Jamila's company has just approved a policy that allows some employees to telecommute. This means employees can work from home and complete their work using a computer and other technology. Jamila is interested in the idea but isn't sure if she should apply.

She is afraid she might not be as motivated to complete her work every day if she doesn't have to go to the office and keep a regular schedule. She also is concerned that it may be much more difficult to communicate with coworkers and get feedback from her manager using the technology. Jamila also wonders if she will be viewed as a productive and valued employee if people don't see her at work every day.

LO 2.3.1

DESIGNING AN EFFECTIVE BUSINESS ORGANIZATION

There are many challenges and uncertainties to overcome in creating a successful business. However, with perseverance and persistence, many businesses thrive. Successful businesses need more than a good product or service. Skilled managers, well-prepared and motivated employees, adequate resources, and effective procedures all contribute to business success. A business needs to be well organized to help people do their work properly. An effective business begins with a clear purpose and the application of key principles for organizing work.

Setting Direction

The direction for a business comes from its **mission statement**. A mission statement is a short, specific written statement of the reason a business exists and what it wants to achieve. Here is an example of the mission statement of Almarai, a Saudi Arabian dairy, beverage, and food producer: *To provide quality and nutritious food & beverages that enrich consumers' lives every day.*

After a mission statement is developed, the business sets goals. A **goal** is a precise statement of results the business expects to achieve. Goals are used to define what needs to be accomplished and to determine if the business is successful. An example of a goal for an automobile manufacturer is "to produce the top-rated brand for quality and customer satisfaction."

How does effective organization help a business "hit the mark"?

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Finally, the business sets policies and procedures for the organization. **Policies** are guidelines used in making consistent decisions. **Procedures** are descriptions of the way work is to be done. Effective policies and procedures provide guidance and direction to people working in the organization.

Principles of Effective Organization

When several people work together, their work needs to be organized so they work together well and achieve their tasks. Several principles guide the effective organization of work.

Responsibility, Authority, and Accountability *Responsibility* is the obligation to complete specific work. *Authority* is the right to make decisions about how responsibilities should be accomplished. *Accountability* is taking responsibility for the results achieved. In an effective organization, all managers and employees have a set of responsibilities as a part of their jobs. With every job assignment, they know they have the authority to make the decisions and obtain the resources needed to complete the assignment. They know they will be recognized and rewarded if they are successful. They will be held accountable if the work is not completed well.

Unity of Command A key organizing principle is unity of command. *Unity of command* means there is a clear reporting relationship for all staff of a business. If there is confusion in assignments and unclear relationships among people who are working together, it will be hard for people to know what to do or where to go for help. For each work assignment, people need to know who is the leader and how decisions will be made.

Span of Control The last organizing principle is span of control. *Span of control* is the number of employees who are assigned to a particular work task and manager. A large number of people working with little support from their manager cannot be effective. In the same way, a manager with only a very small number of people may provide too much control. Organizations need to make sure that workers have a balance of supervision and freedom to do their work. The span of control for well-trained, experienced, and motivated employees can be much greater than the span of control for new and inexperienced employees who are not enthused about their work.

CHECKPOINT
What is the difference between a mission statement and a goal?

In an organization, every member has a specific role to fill. Describe some roles.

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LO 2.3.2

TYPES OF ORGANIZATIONAL STRUCTURES

When only one person works in a business, there is little need for an organizational structure. The sole employee is responsible for all of the work. When more people are hired, there will need to be an agreement on what work each person will do and if one person has authority over the work of others. An **organization chart** is a diagram that shows the structure of an organization, classifications of work and jobs, and the relationships among those classifications. You can see a simple organization chart for a business in Figure 2-1.

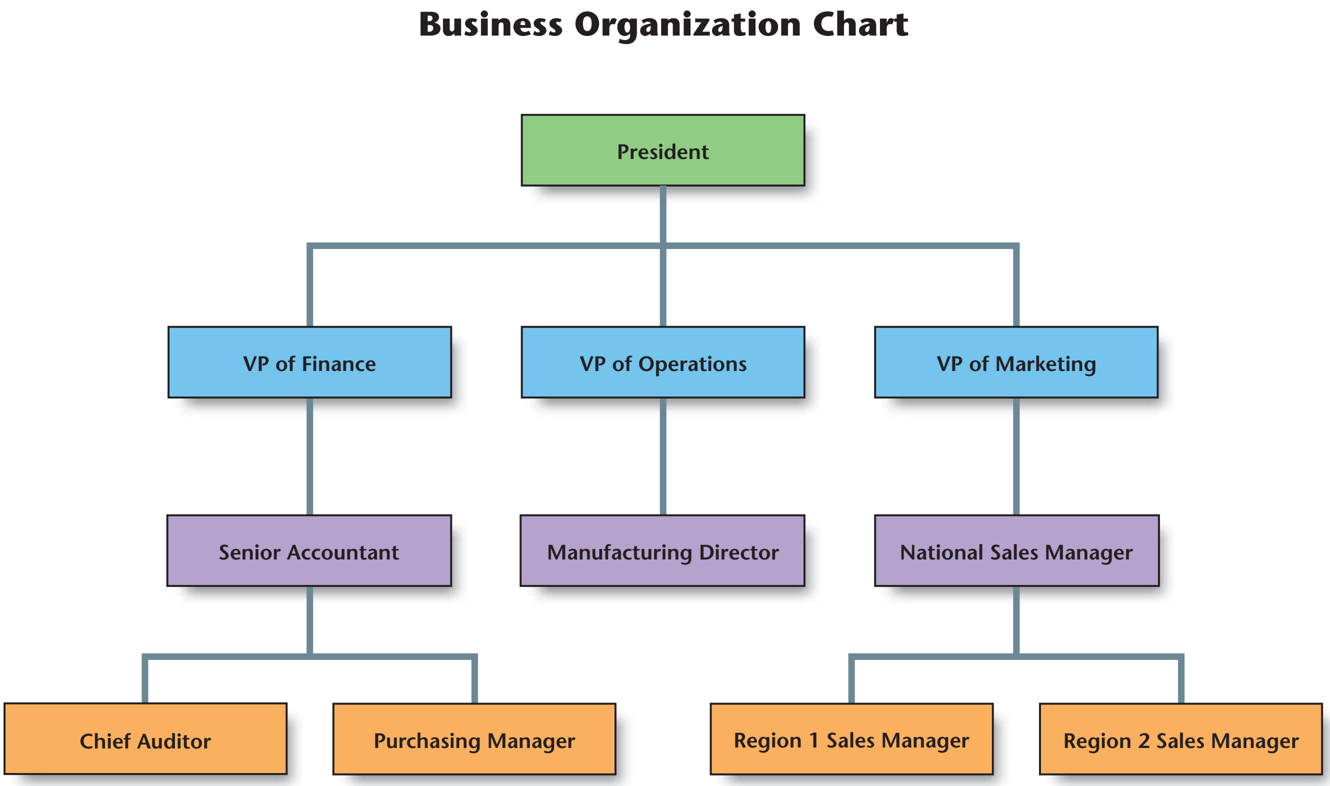

FIGURE 2-1
Why is it important for employees to understand the structure of the company where they work?

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Work as a TEAM

Imagine the students of your class are members of an organization. Using the example in this lesson as a guide, choose a type of organization and create a business organization chart. Organize the group into divisions within the structure, each with a specific function to perform.

Functional Organizational Structure Most businesses use a *functional organizational structure*. In this type of organization, work is arranged within main business functions such as production, operations, marketing, and human resources. All of the people with jobs related to one of the functions will work together. They report to managers who are responsible for that function. The advantage of a functional organization is that people work with others who have the same skills. A drawback is that people become more focused on their specific function than on the success of the whole business. Often, people working in one function have little interaction with people in other parts of the business.

Matrix Organizational Structure A newer organizational structure designed to overcome the drawbacks of the functional structure is the matrix organization. In a *matrix organizational structure*, work is structured around specific projects, products, or customer groups. People with varied backgrounds are assigned together because their expertise is required for the project or to serve the customer. The assignment may be temporary or long term.

A matrix organization can be interesting and motivating to employees. They work with many different people. They are focused on a specific project or task. For example, a team might be assembled with a range of skills to develop a new type of green technology or a new building project. However, it can be confusing and inefficient without effective leadership and communication.

CHECKPOINT ✓
What problems can result from the use of a functional organizational structure?

2.3 ASSESSMENT

Key Concepts

Determine the best answer.

1. True or False. Policies and procedures help provide direction for a business.

2. The obligation to complete specific work is
- **a.** responsibility
- **b.** authority
- **c.** accountability
- **d.** recognition

3. Which of the following is not shown on an organizational chart?
- **a.** the structure of an organization
- **b.** work relationships
- **c.** job descriptions
- **d.** classifications of jobs

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Make Academic Connections

4. **Technology** Use the Internet to collect examples of the mission statements of five businesses. Rate each mission statement in terms of how effectively it communicates the purpose and direction of the company.

5. **Critical Thinking** Many schools are organized using a functional organizational structure. Teachers are organized into departments such as Languages, Mathematics, Science, and Business. How could a school be organized using a matrix structure? Design an organizational chart that illustrates a matrix structure for your school. Describe the advantages and disadvantages of the matrix structure as applied to a school.

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BUSINESS IMPROVING SOCIETY

BUILDING A SUSTAINABLE FUTURE

As part of its commitment to building a sustainable future, Saudi Arabia is investing significantly in green and renewable energy. Saudi Vision 2030 has set the target to be Net Zero by 2060. Just some of the green developments include the launch of the National Renewable Energy Program and the King Salman Renewable Energy Initiative, the establishment of Saudi Investment Recycling Company, and the Green Riyadh Project. His Royal Highness, the Crown Prince Mohammed Bin Salman has said that, "Climate action will enhance competitiveness, spark innovation, and create millions of high-quality jobs." Investment is being injected into harnessing solar and wind power, with the establishment of Sakaka Solar PV Plant and Dumat Al Jandal Wind Farm. Many new initiatives are centred upon local communities, helping to improve the standard of living of all Saudi citizens. A pioneering development project, 'The Line' at Neom, will create a green city, "powered by 100% renewable energy".

Saudi Arabia is investing in green energy to build a sustainable future.

Saudi Arabia's green plans are part of a wider global movement to reduce our environmental impact and support communities. Studying positive examples of change from other parts of the world can help to generate green ideas that might be applied in Saudi Arabia.

More than 25% of the world's population does not have electricity, which means no water pumps, no lights, no refrigerators, and no real chance for a better life. As electricity is crucial to improving the standard of living, some young innovators have devised strategies to help bring electricity to their communities.

For example, in Palmeras, a city in rural Brazil, people were leaving their farms because it was hard to earn a living in agriculture without electricity. This population shift put stress on city services and threatened the future of area farms. A local expert came up with a solution: small business communities powered by solar energy to serve the local farmers. A simple solar energy system providing enough electricity for one farm could be rented for about the same monthly amount as farmers were spending on kerosene, candles, and batteries. This dependable supply of low-cost solar energy would result in higher levels of food production. At the same time, information was provided on modern farming practices to help improve efficiency and sustainability. This is one example of how small changes can make big differences to local communities.

Think Critically

1. In what ways might the standard of living improve when people have access to electricity?
2. Investigate not-for-profit organizations in Saudi Arabia that are helping communities to build a sustainable future.

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Chapter 2

Assessment

Review Business Concepts

2.1 Business in the Saudi Economy

- The Saudi economy is transforming, with the launch of Saudi Vision 2030. A range of initiatives are in place to diversify the economy, reduce the reliance upon oil, decrease unemployment among Saudi nationals, encourage women to join the workforce, promote small business growth, and invest in the youth.
- Businesses play several key roles in the Saudi economy. They make and distribute products and services needed by consumers, government, and businesses. They provide employment for millions of people. They compensate owners and investors.
- The three major categories of businesses are producers, intermediaries, and service businesses. Producers create the products and services used by individuals and other businesses. Intermediaries sell goods and services. A service business carries out activities that are consumed by its customers.

2.2 Forms of Business Ownership

- Most businesses are organized as proprietorships, partnerships, or corporations. A proprietorship, or establishment as it is often referred to in Saudi Arabia, is a business owned and run by one person. A partnership is a business owned and controlled by two or more people. A corporation is a separate legal entity owned by one or more shareholders and managed by a board of directors.
- For people who want to work and make decisions independently, do not want to be exposed to significant regulation, and are willing to take on the risk of a business, the proprietorship is an effective form of ownership. A partnership is good for people who share an idea for a business, want to cooperate in managing and investing, and want to share the risks and rewards of the business. A corporation is more difficult to form and is subject to more regulations. Investors' liability is limited to the amount invested, and they can invest without taking part in the day-to-day management of the business.
- Other forms of ownership include limited liability partnership, joint venture, corporation, nonprofit corporation, cooperative, and franchise.

2.3 Organizational Structure for Businesses

- Successful businesses have an effective organizational structure. A mission statement, goals, policies, and procedures guide them.
- The specific structure of a business can be illustrated with an organizational chart. Traditionally, businesses have used a functional structure but now many use a matrix organizational structure.

Think Critically About Business

1. What are some rapidly growing employment opportunities? What types of jobs are declining in numbers? How can you predict what job categories may grow or decline in the future?

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2. Why do most businesses have no employees other than the owner? Do you believe most of those business owners earn their entire income from that business? Why or why not?

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____

3. Identify several businesses from your community that fit within each of the three categories of businesses listed in Lesson 2-1. Do you believe your community has more producers, intermediaries, or service businesses? Justify your answer.

____

____

4. Would you like to start and own your own business? Why or why not? What do you believe are the risks and benefits you would face if you decided to start a business?

____

____

5. Farah states that she wants to be her own boss. If she starts a business, it will be a proprietorship rather than a partnership or corporation. Explain to Farah why she might want to consider another ownership form. Is it possible for her to be her own boss and yet not use the proprietorship form of ownership?

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____

6. Use a business directory to identify several nonprofit corporations in your area. What public service is each providing? Why do you think each is a public rather than a private corporation?

____

____

7. "An effective organizational structure is as important to a business as the quality of its products and services." Do you agree or disagree with that statement? Discuss your beliefs with another student who has the opposing view.

____

____

8. You are starting a shopping service for elderly people in your community who cannot leave their homes. Write a mission statement that clearly communicates the purpose of your business.

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9. How will the appearance of an organizational chart for a business using a functional organizational structure be different from one using a matrix organizational structure? What should you be able to learn about a business by studying its organizational chart?

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Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
10.	articles of incorporation		**a.** A business owned and controlled by two or more people who have entered into a written agreement.
11.	corporation		**b.** A short, specific written statement of the reason a business exists and what it wants to accomplish.
12.	franchise		**c.** Descriptions of the way work is to be done.
13.	goal		**d.** A specific statement of results the business expects to achieve.
14.	intermediaries		**e.** A written legal document that identifies ownership and operating procedures and conditions for the business.
15.	mission statement		**f.** Businesses involved in selling the goods and services of producers to consumers and other businesses.
16.	organization chart		**g.** A separate legal entity, formed by documents filed with the state, which is owned by one or more shareholders and managed by a board of directors.
17.	partnership		**h.** A written contract granting permission to operate a business to sell products and services in a prescribed way.
18.	partnership agreement		**i.** A business that completes activities that are consumed by customers rather than offers products for sale.
19.	proprietorship		**j.** A business owned and controlled by just one person.
20.	policies		**k.** A written agreement among all owners that specifies the rules and procedures that guide ownership and operations.
21.	procedures		**l.** Guidelines used in making consistent decisions.
22.	service business		**m.** A diagram that shows the structure of an organization, classifications of jobs, and the relationships among those classifications.

Make Academic Connections

23 **Technology** Use a spreadsheet and graphics program to make a chart or graph showing one of the following sets of data: (a) the five largest employers in the world and the number of employees for each, (b) the composition of the Saudi workforce by the age of employees, (c) the average size of Saudi business by annual sales revenues.

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24. **Communication** The school council in your school is planning to open a store to sell school supplies, school-related apparel, and other items before and after school. Prepare a mission statement for the store. Write one goal that identifies a specific result the store should achieve. Write a policy statement for accepting returns of merchandise purchased by customers.

25. **Science** Identify five types of natural resources that are extracted in Saudi Arabia for use in manufacturing. For each, identify the leading regions where the natural resources are extracted and important products for which the natural resource is needed.

26. **Public Service** Most communities have nonprofit corporations that support education. Find out if one or more organizations is working to support your school. If so, contact a leader of the organization. Determine how the organization is structured, if it is has articles of incorporation and bylaws, and its purpose. Find out how students in your school can support the organization through volunteer activities.

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Make Your Case

Asad started a gardening service. He could not charge as much as he needed to make the profit he desired. His competitors only charged SAR 250 per garden while he charged SAR 300, but he did a superior job gardening. Still, potential customers did not want to pay the extra SAR 50.

A friend, Ahmed, suggested that they work together. He was good at trimming shrubs and had ideas for improving landscapes with flowers and lawn ornaments. They would offer a unique service when they combined their businesses. They could charge an amount that would result in a good profit for both of them. They would seek out homes in neighborhoods with above-average income levels.

27. What will be special about the services that Asad and Ahmed can offer together? What other services might they include?

28. Why would they target above-average income levels?

29. Should Asad continue to run his business as a proprietorship and hire Ahmed as an employee? If not, what other form of business ownership would you recommend? Justify your choice.

Interactions and Connections

30. Interview a financial advisor in your community about the process of selecting and purchasing stock. Ask the professional to share information about how people decide which stock to purchase and how a stockholder can track the stock's performance. Ask the broker or advisor if he or she has any general advice for young investors.

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31. Saudi Vision 2030 aims to improve the Saudi Arabian economy and encourages the development of small- and medium-sized enterprises (SMEs). Browse or search for information about forms of ownership that SMEs might consider. Be sure to read the advantages and disadvantages of each form or ownership.

32. Use information from your textbook and the Internet to identify and make a list of factors that influence the form of ownership choice.

33. Provide an example of a business that might benefit from choosing the proprietorship form of ownership. Provide an example for each of these other types of ownership: partnership and corporation.

34. Based on one of your examples from above, write a short scenario describing the advantages and disadvantages of the chosen form of ownership. Describe how the business plans to use the form of ownership to its advantage and how it plans to deal with the disadvantages.

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Small Business Management Team Event

Your team has expertise in working at quick-serve and full-serve restaurants. Team members have college degrees in finance, hospitality marketing, and culinary arts. Your team is very excited about opening an Italian restaurant in a growing city with a population of 75,000 people. Currently there are two Italian restaurants associated with national franchises located in the community. Your team must describe the advantages associated with operating the restaurant as a sole proprietorship, partnership, corporation, and franchise. Then your team must decide upon the best type of ownership for your proposed restaurant and explain the rationale for your decision.

The Small Business Management Team Event involves a 90-minute test and a 10-minute oral presentation followed by a five-minute question and answer session with the judges. Your team may use one laptop/notebook computer, posters, flip charts, or graphs for the presentation.

Performance Indicators Evaluated

- Evaluate, prioritize, interpret, and communicate analysis of data.
- Negotiate business solutions with the team.
- Organize ideas and communicate orally in a group presentation.
- Apply an understanding of forms of business ownership.

Your team will be evaluated for

- Equality of responsibilities among team members of required tasks
- Demonstration of teamwork skills needed to function in a business setting
- Demonstration of self-esteem, self- and team-management, and integrity
- Demonstration of a working knowledge of business management/ownership concepts
- Demonstration of critical thinking skills to make decisions and solve problems

Think Critically

1. What advantages are offered by choosing to operate the restaurant as a partnership?
2. What advantages are offered by choosing the franchise form of business?
3. Why should tax laws be considered when deciding on the form of business ownership?

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Chapter 3

Business in the Global Economy

3.1 International Business Basics

3.2 The Global Marketplace

3.3 International Business Organizations

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Transportation, Distribution & Logistics

PLANNING A CAREER IN . . .
INTERNATIONAL BUSINESS

Global business activities create many employment opportunities. People working in international business direct foreign sales, negotiate with foreign distribution centers, arrange shipping, and plan conversion of products to foreign specifications. While the international business skills necessary to perform these tasks are increasingly important, job titles may not reflect them directly because workers often have other duties unrelated to importing and exporting.

Transportation managers, for example, oversee both foreign and domestic shipping, including settlements between shippers. Customs Service agents investigate persons, common carriers, and merchandise arriving in or departing from the country to prevent prohibited importing or exporting.

Related Job Titles

- Customs Inspector
- Interpreter or Translator
- Global Purchasing Manager
- Freight Inspector
- Cross-Cultural Trainer
- International Sales Representative
- International Marketing Manager
- Import-Export Coordinator

Analyze Career Opportunities in . . .
INTERNATIONAL BUSINESS

Use library and Internet resources to learn more about careers in international business. Choose one of the job titles listed in the box and answer the following questions.

1. How would you describe the earnings potential for this field?
2. Is this a career that interests you? Describe a few things you could do to learn more about this career.

What it's like to work as a . . . Freight Forwarder

"I'm sorry, your shipment is being held at the Port of Hong Kong until the proper documentation is prepared."

These are words no exporter wants to hear. To avoid this type of situation, exporters turn to freight forwarding companies to help them ship their products around the world.

Freight forwarders specialize in shipping goods to customers in other countries. These global intermediaries also help businesses around the world with other services. Areas of expertise include export regulations, costs for various shipping methods, and the customs process.

Most freight forwarders also serve as customs brokers, helping international companies pass inspections when goods enter another country. Customs brokers prepare needed documents and make sure the required tariffs are paid.

What about you? Are you interested in any aspects of international business? Which ones and why?

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3.1 International Business Basics

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

3.1.1 Describe importing and exporting activities.

3.1.2 Compare balance of trade and balance of payments.

3.1.3 List factors that affect the value of global currencies.

Key Terms

Imports
Exports
Balance of Trade
Balance of Payments
Exchange Rate

Focus on REAL LIFE

What did you and your family have for breakfast this morning? Tea, bread with jam, and slices of French cheese, perhaps? If it were not for trading with Kenya for tea and with France for cheese, you might have had only bread with jam. The sugar on your table may have come from India. The textbook you are reading to get ready for class was printed on paper that may have come from Indonesia.

As you look around your home, you will find many products made in other countries. For example, you may find a TV made in Japan or Korea, a computer made in China, clothing made in the Philippines or the U.S.A., kitchen appliances made in Hong Kong or Malaysia, and cocoa from Brazil or Colombia. Look around your classroom. Can you identify products made in other countries?

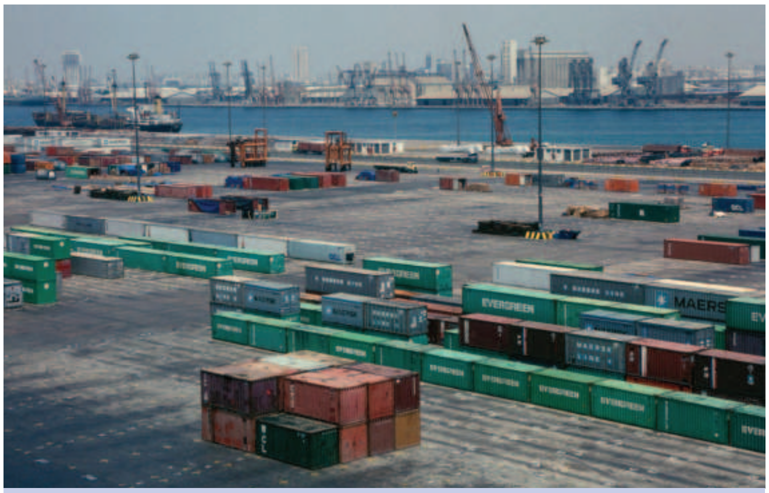
LO 3.1.1

TRADE AMONG NATIONS

Most business activities occur within a country's own borders. *Domestic business* is the manufacture, purchase, and sale of goods and services within a country's borders. *International business* refers to business activities that manufacture, ship, and sell goods and services across national borders. International business is frequently referred to as *foreign* or *world trade*. Evidence of foreign trade is everywhere.

Saudi Arabia is rich in natural resources, of which oil is the principal component. More recently, the country has aimed to diversify away from oil to include other sources of income. It has an educated and youthful labor force and a growing production capacity. The economy is not only reliant on its own resources; its companies and consumers purchase goods and services created throughout the world. Today, Saudi Arabia has trade links with more than 170 countries.

In the past, economies were viewed in terms of national borders. With international trade expanding every day, economies cannot be defined solely by borders. Countries are interdependent and so are their economies. Consumers have come to expect goods and services from around the world.



What are some of the advantages and disadvantages of international trade?

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Absolute Advantage

Two economic principles define buying and selling among companies in different countries. *Absolute advantage* exists when a country can produce a good or service at a lower cost than other countries. This may result from an abundance of natural resources or raw materials in a country. For example, some South American countries have an absolute advantage in coffee production, and Saudi Arabia has an absolute advantage in oil production.

> **Life-Span Plan**
> Identify your special aptitudes or abilities that you believe could help you achieve your life-span goals. Explain how these aptitudes or abilities are similar to absolute or comparative advantage among nations in production and trade.

Comparative Advantage

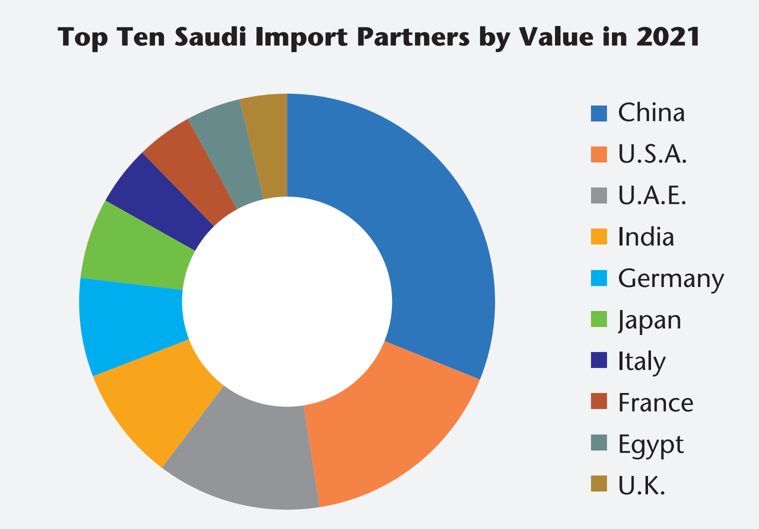
A country may have an advantage in more than one area. If so, it must decide how to maximize its economic wealth. A country may be able to produce both smartphones and clothing better than other countries. The world market for smartphones might be stronger than the market for clothing. This means it would be better for the country to produce smartphones but to buy clothing from other countries. *Comparative advantage* is a situation in which a country specializes in the production of a good or service at which it is relatively more efficient.

A real-world example is the specialization of labor in China and the U.S. China's comparative advantage with the U.S. is cheap labor. Simple goods are produced by Chinese workers at a much lower opportunity cost. Conversely, the comparative advantage for the U.S. is in specialized, higher-cost labor. Sophisticated goods are produced by American workers at a lower opportunity cost. Each country benefits from specializing and trading in this way.

Importing

Imports are products and services that are bought from other countries. Did you know that Saudi Arabia's main imports are machinery and electrical equipment (27% of total imports), base metals (13%), chemicals (9%), and vegetables (6%)? In 2021, the full value of Saudi Arabia's imports was SAR 565.5 billion (source: Saudi Customs Data Initiative).

Saudi Arabia's main import partners are China, the U.S., the U.A.E., India, Germany, and Japan. Other significant partners include Italy, France, Egypt, and the U.K. Figure 3-1 shows Saudi Arabia's dependence on imported raw materials to satisfy its manufacturing and consumer needs.



Source: Saudi Customs Data Initiative

FIGURE 3-1
How would Saudi Arabia's economy be affected if it was unable to trade with these partners due to a global pandemic, such as Covid-19?

Without foreign trade, many things you buy would cost more or not be available. Other countries can produce some goods at a lower cost because they have the needed raw materials or have lower labor costs. Some consumers purchase foreign goods, even at higher prices, if they perceive the quality to be better than domestic goods. They may simply enjoy products made in other countries. French perfumes, Japanese cars, and Swiss watches are examples.

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Exporting

Goods and services sold to other countries are called **exports**. Just as imports benefit you, exports benefit consumers in other countries. For example, people throughout the world use mineral fuels including oil from Saudi Arabia. They eat food made from Saudi agricultural products and use chemicals, fertilizers, and plastics from the Kingdom. Construction materials sourced in Saudi Arabia are used in the erection of buildings across the Gulf and beyond. Saudi Arabia is currently the 19th largest exporter in the world. While oil remains the biggest export, the country has taken initiatives to diversify the economy and boost exports in other fields. Figure 3-2 shows the Saudi balance of trade with its top trading partners it exports to.

SAUDI TRADE BALANCES 2019

COUNTRY	GOODS EXPORTED (SAR* BILLIONS)	GOODS IMPORTED (SAR* BILLIONS)	SAUDI TRADE BALANCE (SAR* BILLIONS)
China	34.88	101.28	-66.4
U.E.A.	16.5	39.01	-22.51
India	14.25	24.38	-10.13
Singapore	12.75	6.0	+6.75
Turkey	7.5	11.25	-3.75
Belgium	6.75	5.63	+1.12
Egypt	6.38	9.0	-2.62
Kuwait	6.0	1.88	+4.12
Malaysia	5.25	3.75	+1.5
Jordan	4.88	3.38	+1.5

*Saudi Arabian Riyal   Source: World Integrated Trade Solution

FIGURE 3-2
Which country has the largest trade imbalance with Saudi Arabia?

CHECKPOINT
How does importing differ from exporting?

LO 3.1.2

MEASURING TRADE RELATIONS

A major reason people work is to earn money to buy things. First, they sell their labor for wages. They then spend the major part of those wages on goods and services. People usually try to keep their income and spending in balance. They know that if they spend more than they earn, they can experience financial problems. Nations are also concerned about balancing income with expenditures. When people buy more than their income allows, they go into debt. In the same way, when a country has an unfavorable balance of trade, it owes money to others. *Foreign debt* is the amount a country owes to other countries.

Balance of Trade

The difference between a country's total exports and total imports is called the **balance of trade**. If a country exports (sells) more than it imports (buys), it has a *trade surplus*. Its trade position is said to be favorable. If it imports more than it exports, it has a *trade deficit* and its trade position is unfavorable.

A country can have a trade surplus with one country and a trade deficit with another. Countries should strive to keep their international trade in balance. Figure 3-3 on page 91 shows the two possible trade positions (favorable and unfavorable). Due to extensive oil exports, Saudi Arabia has recorded a trade balance surplus in many years since 1968 and is therefore in a very strong and favorable trade position (source: World Bank data via www.macrotrends.net).

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Balance of Payments

In addition to exporting and importing goods and services, nations participate in other forms of exchange. Money passes from one country to another through investments and tourism. A citizen of one country might invest in a corporation in another country. A business may invest in a factory in another country. One government might give financial assistance or military aid to another nation. Banks may deposit funds in foreign banks.

When tourists travel, they add to the flow of money from their country to the country they are visiting. Some countries limit the amount of money their citizens can take out of the country when they travel.

The **balance of payments** is the difference between the amount of money that comes into a country and the amount that goes out of it. A *positive* or *favorable* balance of payments occurs when a nation receives more money in a year than it pays out. A *negative* balance of payments is *unfavorable*. It is the result of a country sending more money out than it brings in.

While there are similarities, there is a notable difference between the balance of trade and the balance of payments. Balance of trade is solely concerned with the import and export of physical goods, whereas balance of payments is a broader measure of the inflow and outflow of foreign exchange, including services, transfers, and flow of money from tourism.

Work as a TEAM

Countries attempt to establish or maintain a favorable balance of payments. Create a list of actions a nation might take to improve its trade relations with other countries.

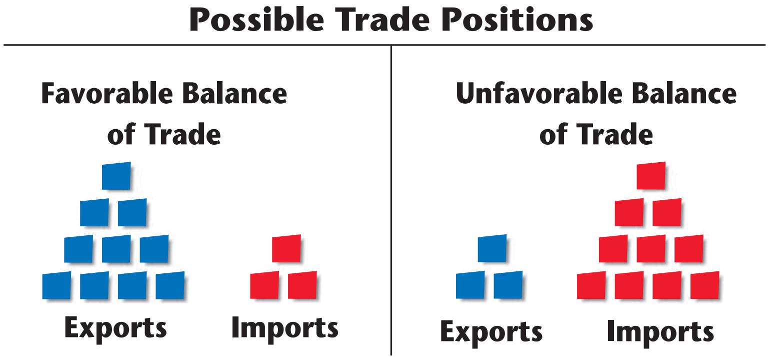

FIGURE 3-3
Why is it better for a country to export more than it imports?

CHECKPOINT
How does balance of trade differ from balance of payments?

LO 3.1.3

INTERNATIONAL CURRENCY

In every economy, money serves three functions: (1) a *store of value* for future buying; (2) a *medium of exchange* for business transactions; and (3) a *unit of measure* to value goods and services. One challenge of international trade is the various currencies used around the world. For instance, Saudi Arabia uses the *Riyal*; the United States, the *Dollar*; the European Union, the *Euro*; Brazil, the *Real*; and India, the *Rupee*.

What are the benefits and concerns associated with having many different currencies around the world?

Foreign Exchange Rates

The process of exchanging one currency for another occurs in the *foreign exchange market*, which consists of banks that buy and sell different currencies. Most large banks provide currency services for businesses and consumers. The **exchange rate** is the value of a currency in one country compared with the value in another. Supply and demand affect the value of currency. The approximate values of various currencies on a recent date in relation to the Saudi Arabian Riyal (SAR) are listed in Figure 3-4.

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Travelers and businesspeople must deal with currency exchanges as they go from one country to another. Travelers in another country can go to a currency exchange and buy the local currency. The amount of local currency they receive depends on the value of the two currencies at that time. Current rates are available online and at exchange windows. Currency exchange operators charge a fee. They are located at airports, train stations, hotels, and banks. Foreign currencies may also be purchased online.

VALUES OF CURRENCIES (MAY 2022)			
COUNTRY	CURRENCY	UNITS PER SAR	VALUE IN SAR
Britain	pound	4.90	0.20
Australia	dollar	2.79	0.36
Canada	dollar	2.99	0.33
European Union	euro	4.06	0.25
United States	dollar	3.75	0.26
Japan	yen	0.02	34.07
South Africa	rand	0.24	4.00
U.A.E.	Emirati dirham	1.02	0.98
Switzerland	Swiss franc	3.96	0.25

Source: Saudi Central Bank, accessed May 2022

FIGURE 3-4

Which currency is worth the most in terms of SAR?

Factors Affecting Currency Values

Three main factors affect currency exchange rates among countries: the country's balance of payments, economic conditions, and political stability.

Balance of Payments When a country has a favorable balance of payments, the value of its currency is usually constant or rising. An increased demand for both the nation's products and its currency influences this situation. When a nation has an unfavorable balance of payments, its currency usually declines in value.

Economic Conditions *Inflation* occurs when prices increase and the buying power of the country's money declines, which makes its currency less appealing. Inflation is linked to the money supply and reduces the buying power of a currency. High inflation in Brazil, for example, would reduce the demand for the Real.

Interest rates are an additional charge imposed on organizations or individuals by lenders for borrowing money. These rates can affect the value of a country's currency. Higher interest rates usually create lower consumer demand. This usually results in a reduced demand for a nation's currency, causing a decline in its value.

Political Stability Companies and individuals want to avoid risk when they do business in other nations. If a government changes suddenly, this may create an unfriendly setting for foreign business. A company could lose its buildings, equipment, or money on deposit in banks.

Political instability may also occur when new laws are created. These laws may not allow foreign businesses to operate as freely as they did under the old laws. Uncertainty in a country reduces the confidence that businesspeople have in its currency.

CHECKPOINT ✓
What factors affect the value of a country's currency?

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3.1 ASSESSMENT

Key Concepts

Determine the best answer.

1. Which of the following would be an example of international business?
   a. A farmer in Tabuk using fertilizer made in Al Khobar
   b. A sales staff in Jeddah representing a foreign producer
   c. A restaurant in Riyadh offering Asian menu items
   d. A retail store in Dammam selling craft items from local artists

2. When a country's imports exceed its exports, there is a trade
   a. surplus
   b. deficit
   c. exchange
   d. balance

3. The value of a country's currency is likely to decline as a result of
   a. higher inflation
   b. lower interest rates
   c. a trade surplus
   d. a favorable balance of payments

Make Academic Connections

4. **Culture** While business knowledge is important, often cultural awareness in foreign markets is even more important. Interview someone who has lived in or visited another country about cultural factors that affect business activities in that country.

5. **History** Conduct research to identify various items that have been used as money in the past. Obtain photos online of the different forms of money. Explain how these items served as medium of exchange, store of value, and unit of measure.

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3.2 The Global Marketplace

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

3.2.1 Describe the components of the international business environment.

3.2.2 Identify examples of formal trade barriers.

3.2.3 Explain actions to encourage international trade.

Key Terms

Infrastructure
Tariff
Trade Barriers
Embargo
Quota

Focus on REAL LIFE

"Look, this shirt was made in China," Ali announced as he put the hanger back on the rack. "I want shirts made in Saudi Arabia."

Yousef touched the shirt and asked, "What's wrong with shirts from China?"

"I don't know, but wouldn't it be better if we bought things made here rather than giving our money to other countries?"

"Actually, trading with other countries can be good for us," Yousef explained. "When we buy goods from China it helps that country's economy and makes it possible for the Chinese to buy goods and services from Saudi companies."

Ali picked up the shirt and said, "In that case, I'll buy this one."

LO 3.2.1

INTERNATIONAL BUSINESS ENVIRONMENT

Doing business in other countries requires knowledge of the differences that exist among people and places. As shown in Figure 3-5 on page 95, businesses must consider four main factors—geography, cultural influences, economic development, and political and legal restrictions.

Geography

The location, climate, terrain, seaports, and natural resources of a country influence business activity. Very hot weather will limit the types of crops that can be grown. A nation with many rivers or ocean seaports can easily ship products for foreign trade. Countries with few natural resources must depend on imports.

Cultural Influences

In some societies, bowing is an appropriate business greeting. In other societies, a handshake is the custom. These differences represent different cultures. *Culture* is the accepted behaviors, customs, and values of a society. A society's culture has a strong influence on business activities. During Ramadan, Saudi businesses tend to have shorter opening hours and permit their staff to work fewer hours.

The main cultural and social factors that affect international business are language, religion, values, customs, and social relationships. These relationships include interactions between society and other organizations.

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Economic Development

Countries and individuals face the problem of limited resources to satisfy needs and wants. You continually make decisions about the use of your time, money, and energy. In a similar way, every country plans the use of its land, natural resources, workers, and wealth to best serve the needs of its people.

In some countries, people travel on a high-speed bullet train to manage a computer network in a high-rise building. In other countries, people go by oxcart to a grass hut to operate a hand loom to make cloth for people in their village. These differences in living and work environments reflect the level of economic development. The key factors that affect a country's level of economic development are:

- **Literacy Level** Countries with better education systems usually provide more and better goods and services for their citizens.
- **Technology** Automated production, distribution, and communications systems allow companies to create and deliver goods, services, and ideas quickly.
- **Agricultural Dependency** An economy where most workers are involved in agriculture does not have the manufacturing base to provide citizens with great quantity and high quality of a product.

Another factor that supports international trade in industrialized countries is **infrastructure**. Infrastructure refers to a nation's transportation, communication, and utility systems. A country such as Germany—with its efficient rail system, high-speed highways, and computers—is better prepared for international business activities than other nations with a weaker infrastructure.

Political and Legal Restrictions

Each day you encounter examples of government influence on business. Governments regulate fair advertising and enforce contracts. They require safety inspections of foods and medications. In many places, the activities of consumers and business operators are restricted. The most common political and legal factors that affect international business activities include the type of government, the stability of the government, and government policies toward business.

Work as a TEAM

Knowledge of the international business environment is important for all global activities. As a team, create a list of items for each of the following categories: geography, cultural influences, economic development, and political/legal concerns. Explain how these items could affect a company when doing business in another country.

GEOGRAPHIC FACTORS
- Location
- Climate
- Terrain
- Waterways
- Natural resources

ECONOMIC FACTORS
- Technology
- Education
- Inflation
- Exchange rate
- Infrastructure

INTERNATIONAL BUSINESS ENVIRONMENT

CULTURAL FACTORS
- Language
- Family
- Religion
- Traditions
- Food

POLITICAL AND LEGAL FACTORS
- Government system
- Political stability
- Trade barriers
- Business regulations

FIGURE 3-5
What are some specific examples of the four main factors of the international business environment?

CHECKPOINT ✓
List the four main elements of the international business environment.

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LO 3.2.2

INTERNATIONAL TRADE BARRIERS

Government actions can create **trade barriers**, which are restrictions to free trade. These political actions are *formal* trade barriers. Three common formal trade barriers are quotas, tariffs, and embargoes.

The culture, traditions, and religion of a country can create *informal* trade barriers. These situations are not related to formal government actions but they can still restrict trade.

Quotas

To regulate international trade, governments set a limit on the quantity of a product that may be imported or exported within a given period. This limit is called a **quota**.

Quotas may be set for many reasons. It's often done by a nation to shield its "infant industries," which need protection to get started. Governments will also impose quotas to protect domestic producers on products such as sugar, cattle, dairy products, and textiles. Quotas may be set on imports from another country to express displeasure at the policies of that country.

Quotas can also be set by a country to limit the amount of exports. OPEC member countries use quotas to control production so oil supply balances global demand.

Do tariffs on imported goods encourage consumers to buy, or persuade them to purchase local alternatives?

Tariffs

Another device that governments use to control international trade is the tariff. A **tariff** is a tax that a government places on certain imported products. Suppose you want to buy imported furniture. The producer charges SAR 2,400, but the government collects a 20% tariff (SAR 480) on the furniture when it is imported. Therefore, you will have to pay SAR 2,880 plus shipping charges for the furniture. The increased price may cause you to decide to buy furniture manufactured in Saudi Arabia at a lower price.

Some tariffs are a set amount per kilo, liter, or other unit, while others are figured on the value of the good, as in the example of the furniture. A tariff increases the price for an imported product. A high tariff tends to lower the demand for the product and reduce the quantity of that import. Tariffs are also imposed in Saudi Arabia. They are seen as essential to protecting jobs and local businesses.

Embargoes

If a government wishes to do so, it can stop the export or import of a product completely. This action is called an **embargo**. Governments may impose an embargo for many reasons. They may wish to offer more protection from international competition for their own industries than either the quota or the tariff will provide. For example, a government may ban the import of solar panels from other countries, if it was seeking to develop its own green technologies domestically. The

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government may wish to prevent sensitive products, especially those vital to the nation's defense, from falling into the hands of unfriendly groups or nations. A government sometimes imposes an embargo to express its disapproval of the actions or policies of another country.

CHECKPOINT
What are three formal trade barriers?

Business Insight

The Importance of Communication and Information Technology in Trade and the Economy

Saudi Arabia has won the Government Leadership Award from the International Federation of Mobile Communications in recognition of its powerful ICT and digital infrastructure. The Kingdom has adopted best practices and regulations to support the digital economy, which has encouraged local and international business development. This focus on digital has created new job opportunities for young people, resulting in an emergence of creative ICT entrepreneurs.

At a global level, technical and ICT progress has helped residents of rural areas in developing countries. Due to the scarcity of banks, the use of smartphones in these areas has made it practical and easy to access financial services. For example, farmers can make online payments for livestock, agricultural equipment, crop seeds, etc.

Organizations such as the Grameen Bank have developed mobile banking systems to serve farmers and entrepreneurs in Asia and Africa, enabling customers to use their phones to check account balances, pay bills, maintain savings accounts, and obtain loans for the establishment of local projects. These projects have led to the creation of new jobs, providing residents with the necessary money to get food, clean water, healthcare, and education.

Think Critically

1. What are the banking services that people in poor and rural areas can benefit from using smartphones?
2. Do a search on the Internet for more information on online banking in developing economies.

LO 3.2.3

ENCOURAGING INTERNATIONAL TRADE

Specific actions by governments can promote international business activities. Governments view exporting as an effective way to create jobs and foster economic prosperity.

Free-Trade Zones

To promote international business, governments often create free-trade zones in their countries. A *free-trade zone* is a selected area where products can be imported duty-free and then stored, assembled, and/or used in manufacturing. A free-trade zone is often located around a seaport or airport. The importer pays duty only when the product leaves the zone.

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Why do you think Saudi businesses would be interested in exporting?

Free-Trade Agreements

Many countries set up free-trade agreements with other nations. Under a *free-trade agreement*, member countries agree to remove duties, also called import taxes, and trade barriers on products traded among them. This results in increased trade between the members. For example, the EFTA States signed a Free Trade Agreement with the Gulf Cooperation Council (GCC) in 2009. This pact did away with tariffs on goods traded and helped to ease their movement between the nations involved. In another example, the United States, Canada, and Mexico began implementing the North American Free Trade Agreement (NAFTA) in 1994. NAFTA was designed to enlarge the markets and economic bases of the countries involved.

The majority of the world's trading nations use the World Trade Organization (WTO) to negotiate trade agreements. The WTO is the only global international organization dealing with the rules of trade between nations.

Common Markets

In a *common market*, members do away with duties and other trade barriers. They allow companies to invest freely in each member's country. They allow workers to move freely across borders. A common market is also called an *economic community*. Common market members have a common external duty on products being imported from nonmember countries. Examples of common markets include the Gulf Cooperation Council and the European Union (EU). The goals are to expand trade among member nations and promote regional economic integration.

CHECKPOINT ✓
What actions could be taken to encourage international trade?

3.2 ASSESSMENT

Key Concepts

Determine the best answer.

1. True or False. Infrastructure is a significant factor that affects the economic development of a country.
2. True or False. An informal trade barrier is created by government actions.
3. A country that wishes to enhance international trade activities would most likely use
   - **a.** a tariff
   - **b.** a common market
   - **c.** an embargo
   - **d.** a quota

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Make Academic Connections

4. **Law** Use the Internet to locate information about laws in foreign countries that are different from those in Saudi Arabia.

5. **Geography** Using library resources or the Internet, obtain copies of maps for various geographic regions. On your map, indicate how the terrain, climate, and waterways might influence international trade activities. Present a one- to two-minute summary of your findings.

6. **History** Conduct research on the history of a common market such as the GCC or the EU. Describe some of the benefits the community provides to its member nations.

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3.3 International Business Organizations

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

3.3.1 Discuss activities of multinational organizations.

3.3.2 Explain common international business entry modes.

3.3.3 Describe activities of international trade organizations and agencies.

Key Terms

Multinational Company (MNC)

Joint Venture

Focus on REAL LIFE

"How was Italy?" Yusuf asked as he settled into a chair across from a colleague who had just returned from a six-month assignment.

"I worked really hard, but I found time to enjoy some Italian culture and eat some great food. Living and working in another country was a good experience and I would do it again. However, I must admit that I'm glad to be home," responded Adil.

"What did you miss the most?"

Adil said, "Saudi coffee. It was easy to find other types of coffee, but they just weren't quite the same as the Saudi one."

LO 3.3.1

MULTINATIONAL COMPANIES

A **multinational company (MNC)** is an organization that does business in several countries. MNCs usually consist of a parent company in a *home country* and divisions or separate companies in one or more other countries. The different country in which the MNC conducts business activities is called the *host country*.

What are the advantages of a multinational strategy?

MNC Strategies

Multinational corporations can use either a global or multinational strategy. A *global strategy* uses the same product and marketing strategy worldwide. The same, or a very similar, product is sold throughout the world. For example, some dairy companies tend to use a global strategy with slight variations.

A *multinational strategy* treats each country market differently. Firms develop products and marketing strategies that adapt to the customs, tastes, and buying habits of a distinct national market. Many restaurant chains use a multinational strategy when they modify their menus to local tastes.

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MNC Benefits

Several benefits are associated with international business. Consumers have a large amount of goods available. Often, these goods are sold at lower prices than goods made domestically. Career opportunities also expand as a company does business in a variety of countries.

Global business activities may also foster understanding, communication, and respect among people of different nations. Nations that are business partners usually try to maintain friendly relations for economic reasons.

What are some advantages of international business?

Drawbacks of Multinational Companies

An MNC can become a major economic power in a host country. The workers of the host country may depend on the MNC for jobs. Consumers become dependent upon it for goods and services. The MNC may also influence prices and consumption of goods and services in the host country.

CHECKPOINT
What are two strategies commonly used by multinational companies?

LO 3.3.2

GLOBAL MARKET ENTRY MODES

As companies expand into other countries, several methods are available for their use.

Licensing

Some companies want to produce items in other countries without being actively involved. They may allow a foreign company to use a procedure they own. *Licensing* is selling the right to use some intangible property (production process, trademark, or brand name) for a fee or royalty.

The use of sports team logos on hats, shirts, jackets, notebooks, luggage, and other items also involves a licensing agreement. Licensing has a low financial investment, so the potential financial return is often low. The risk for the company is also low.

Work as a TEAM

International business success often increases when a company works with a local business partner in another country. Choose a company or product that could be sold in other countries. Identify the types of companies that you might consider as a partner in other countries. Then identify information sources that you might contact to make sure these potential partners would be suitable companies with which to do business.

Sponsorship has some similarities to licensing as a low-risk and relatively simple method for penetrating new markets. Sponsorship of sports teams or sporting events and venues has proved an effective way to increase an organization's presence and influence abroad. NEOM, Saudi Arabia's new super city currently in development, for example, recently announced a four-year sponsorship deal with the Asian Football Confederation (AFC).

Franchising

Another method often used to expand into other countries is the *franchise*. A franchise is the right to use a company name or business process in a specific way. Organizations enter into contracts with people in other countries to set up a business that looks and runs like the parent company. The company obtaining the franchise will usually adapt a range of business elements. Marketing

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FYI In March 2022, Saudi Arabian Military Industries (SAMI) signed a preliminary Saudi Arabia-focused joint venture agreement with Boeing, the world's leading aerospace company. Aircraft numbers in the country are expected to double in the next ten years. This joint venture is an example of the Saudi Vision 2030 ambition to develop more products and services in Saudi Arabia, instead of outsourcing to other regions in the world.

elements such as food products, packaging, and advertising messages must meet both cultural sensitivities and legal requirements.

Both franchising and licensing involve a royalty payment for the right to use a process or company name. Licensing usually involves a manufacturing process. Franchising commonly involves selling a product or service. Franchise agreements are popular with fast-food companies. Some fast-food companies have used franchising to increase their presence in foreign markets. In November 2021, for example, the American sandwich restaurant chain Subway announced a new franchise partnership with Saudi Arabia's Abdulaziz Alhokair Co to expand its presence in the Kingdom.

Joint Venture

Business partnerships can provide benefits to all parties involved. One type of global partnership is the joint venture. A **joint venture** is an agreement between two or more companies to share a business project.

The main benefit of a joint venture is the sharing of raw materials, shipping facilities, management activities, or production facilities. Concerns about this type of partnership include sharing of profits and not as much control because several companies are involved.

This arrangement is very popular for manufacturing. An example of this can be seen in the 2009 joint venture between the Saudi Arabian Mining Company (Ma'aden) and U.S.-based Aluminum producer, Alcoa, which was updated in 2019 (source: Alcoa). Another example is the joint venture between Dussur, Saudi Aramco, and the South Korean firm Doosan for the establishment of a large-scale casting and forging facility in Saudi Arabia.

CHECKPOINT ✓
How does licensing differ from a franchise?

LO 3.3.3

INTERNATIONAL TRADE ORGANIZATIONS

International business activities can be very complex. As a result, several organizations have been created to help companies with global trade activities.

World Trade Organization

The World Trade Organization (WTO) was created in 1995 to promote trade around the world. Saudi Arabia has been a member of WTO since 2005. With 160 member countries representing 95% of world trade, WTO settles trade disputes and enforces free-trade agreements between its members. Other goals of WTO include the following:

- Lowering tariffs that discourage free trade
- Eliminating import quotas
- Reducing barriers for banks, insurance companies, and other financial services
- Assisting poor countries with economic growth

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International Monetary Fund

The International Monetary Fund (IMF), with more than 180 member nations, helps to promote economic cooperation. It maintains an orderly system of world trade and exchange rates. The IMF was established in 1946 when the economic interdependence among nations was growing at a greater pace than ever before in history. Saudi Arabia has been a member since 1957.

Before the International Monetary Fund was instituted, a country could change the value of its currency to attract more foreign customers. As other countries lose business, they may impose trade restrictions or lower the value of their currency. As one nation tries to outdo another, a trade war may result. Today, cooperation among IMF nations makes trade wars less likely.

World Bank

The International Bank for Reconstruction and Development is commonly called the *World Bank*. It was created in 1944 to provide loans for rebuilding after World War II. Today, the bank's key function is to give economic aid to less-developed countries. These funds build communications systems, transportation networks, and energy plants.

The World Bank, with nearly 190 member countries, has two main divisions: the International Development Association and the International Finance Corporation. The International Development Association (IDA) makes loans to help developing countries. Saudi Arabia supports the World Bank in its initiatives to end poverty and improve prosperity around the world. The International Finance Corporation (IFC) provides capital and technical help to private businesses in nations with limited resources. The IFC promotes joint ventures between foreign companies and local companies to further capital investment in developing nations.

CHECKPOINT ✓
How does the International Monetary Fund assist countries?

NET KNOWLEDGE

The Saudi Export Development Authority provides extensive help to companies involved in exporting. Locate the Saudi Export Development Authority's website online. Describe how the information available could be useful to companies that are starting or expanding their exporting activities.

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3.3 ASSESSMENT

Key Concepts

Determine the best answer.

1. A company is planning to sell the rights to its brand name for use in other countries. This is an example of a
   a. joint venture
   b. trade agreement
   c. franchise
   d. licensing agreement

2. The international organization that settles trade disagreements and enforces free-trade agreements is the
   a. WTO
   b. United Nations
   c. IMF
   d. World Bank

Make Academic Connections

3. **Economics** Visit a store or online business that sells toys, sporting goods, or other merchandise printed with logos or images belonging to other companies. List the information given that indicates a licensing agreement.

4. **Communication** Create a visual presentation (using software, photos, or a poster) that communicates the purpose of the International Monetary Fund or the World Bank.

5. **Read** Find a news article that relates to a topic addressed in this lesson. Read the article and write a one-sentence summary of the main idea. Include a properly formatted citation for your source.

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BUSINESS IMPROVING SOCIETY

THE SAFE WATER TEAM

What actions can people take to help provide clean water in local and global settings?

Access to safe and readily available water on tap is something that many people around the world take for granted. Yet a considerable infrastructure is needed to make this supply a reality. Owing to its natural dry desert environment, Saudi Arabia has a relative scarcity of fresh water. This challenge is met by a range of measures, including the world's largest desalination system—a process of removing salt from seawater to make it safe to drink. Saudi Vision 2030 is putting additional measures in place to safeguard the country's water supply for the future, including targets to reduce consumption and utilize renewable water.

Unfortunately, some countries suffer severely from lack of access to safe drinking water. Here comes the role of the Safe Water Team (SWT) who is making unremitting efforts to take the necessary measures to confront the cause behind the number of deaths in Africa and other regions. SWT provides simple and sustainable water filtration units, using natural materials to filter out impurities in the water. The simplicity of this system makes maintenance and repairs unnecessary.

The Safe Water Team uses a corporate social responsibility (CSR) approach to partner with various groups for its work. SWT has created a sustainable safe water delivery system that costs pennies per day.

SWT first selects a community that lacks access to safe drinking water and appoints a village leader as project manager. This person recruits a community member to educate others about the filter operating system. To qualify to receive a filter, a member of the household must be educated on filter use and hygiene. This ensures local involvement and a community commitment to continually provide clean water to families.

The Safe Water Team places an emphasis on entrepreneurship among the people they serve. As water-related illnesses are reduced, healthy people are able to pursue economic opportunities. Entrepreneurial activity empowers people to start businesses and to better provide for the educational, health, and household needs of their families and community.

Think Critically

1. Locate another website that promotes awareness and attempts to solve a social issue or concern. Write a brief description of the website, the issue, and the goals of the organization. Discuss your opinion about the likelihood of success.
2. Identify a social issue or economic concern of interest to you and plan a website that might raise awareness of the situation.

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Chapter 3 Assessment

Review Business Concepts

3.1 International Business Basics

- Domestic business is the making, buying, and selling of goods and services within a country. International business refers to the business activities needed for creating, shipping, and selling goods and services across national borders.
- A country is said to have an absolute advantage when it can produce a good or service at a lower cost than other countries. If a country specializes in the production of a good or service at which it is more efficient, it is said to have a comparative advantage.
- Imports are items bought from other countries. Exports are goods and services sold to other countries. Nations do business with each other to increase the variety of goods and services available to their consumers.
- Balance of trade is the difference between a country's exports and imports. The difference between a country's total payments to other countries and its total receipts from other countries is the balance of payments.
- The exchange rate is the value of a currency in one country compared with the value of a currency in another country.
- The value of global currencies is affected by three main factors: balance of payments, economic conditions, and political stability.

3.2 The Global Marketplace

- The international business environment involves four main components: geography, cultural influences, economic development, and political and legal concerns.
- Three formal barriers to international trade are quotas, tariffs, and embargoes. A quota is a limit set on the quantity of a product that may be imported or exported within a given period. A tariff is a tax placed on certain imported products. An embargo stops the import or export of a product completely.
- Actions to encourage international trade include free-trade zones, free-trade agreements, and common markets.

3.3 International Business Organizations

- Multinational companies conduct business activities in several countries and have management capable of doing business worldwide.
- Common methods used for global business include licensing, franchising, and joint ventures.
- The World Trade Organization was created to promote trade around the world. The International Monetary Fund helps to promote economic cooperation by maintaining a system of world trade and exchange rates. The World Bank provides economic assistance to less-developed countries.

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Think Critically About Business

1. Describe how an absolute advantage might affect a country's imports and exports.

2. Explain why it is difficult for a community or a nation to be completely independent.

3. How does international business contribute to a better standard of living for many people in various countries?

4. For the following situations, decide whether this is an example of an *informal* or *formal* trade barrier.
   - **a.** Law requiring that stores be closed on Wednesday
   - **b.** Beliefs about not eating certain foods
   - **c.** Special tax on the sale of energy drinks
   - **d.** Required nutritional information on food packaging

5. Describe situations in which a joint venture would benefit a company involved in international business.

6. A country sometimes uses high tariffs to protect its new and developing industries. What are two examples of new and developing industries either in Saudi Arabia or in other countries? Do you think that such industries should be protected by high tariffs? If so, how long should they be protected?

7. Some people believe that a nation should place stiff controls on imports of goods that compete with its businesses to prevent the "exporting of jobs" to other countries. Give arguments for and against such a position.

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Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
8.	balance of payments		**a.** Goods and services sold to another country.
9.	balance of trade		**b.** A limit on the quantity of a product that may be imported and exported within a given period.
10.	embargo		**c.** Government restrictions to reduce free trade.
11.	exchange rate		**d.** An organization that conducts business in several countries.
12.	exports		**e.** The value of money of one country expressed in terms of the money of another country.
13.	imports		**f.** Goods and services bought from another country.
14.	infrastructure		**g.** Stopping the importing or exporting of a certain product or service.
15.	joint venture		**h.** An agreement between two or more companies from different countries to share a business project.
16.	multinational company (MNC)		**i.** The difference between a country's total exports and total imports of goods.
17.	quota		**j.** A tax that a government places on certain imported products.
18.	tariff		**k.** The difference between a country's total payments to other countries and its total receipts from other countries.
19.	trade barriers		**l.** A nation's transportation, communication, and utility systems.

Make Academic Connections

20. Geography Locate examples of multinational companies in different countries. Create a map showing where the companies are based and the other nations in which the companies operate.

21. Economics Go to the website of an economic community (common market) or a regional trade organization. Make a list of the countries involved and describe some of the organization's activities.

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22. History Conduct research on the history of money systems that have been used in other countries. Find examples of the use of a country's currency in another country.

23. Math To make their exports suitable for use in other countries, some manufacturers must produce goods that are measured in the metric system. For example, if a manufacturer wanted to export paint, which is sold in gallons in a particular country, it would probably export the paint in 4-liter cans (about 1.4 gallons). To what sizes would the items listed be converted for export to countries using the metric system?

a. A quart bottle of liquid detergent
b. A 50-yard bolt of fabric
c. An automobile engine measured in cubic inches
d. A 12-inch ruler
e. A bathroom scale that measures in pounds

24. Technology Using a spreadsheet program, create a table and graph to report the changing value of the Saudi Riyal compared with currencies of other countries.

25. Math Using the information in Figure 3-4, determine how many Saudi Riyals someone could buy for these amounts of currencies from other countries.

a. In Japan, 1,200 yen
b. In Canada, 5 Canadian dollars
c. In South Africa, 150 rands

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26. **Career Planning** Investigate what types of legal agreements a person might encounter when applying for a job to work for a multinational company in another country.

Make Your Case

Assume you have started a business that manufactures electric toasters that you want to sell to the people of China.

27. What are some potential difficulties that you might encounter when doing business in the Chinese market?

28. What actions could your company take to help improve your opportunities for success?

Interactions and Connections

29. Examine the labels of 10 clothing items you own to collect the following information for each item: description of garment, fabric type and characteristics/features, and country of origin. Use the data to prepare a list or table of your findings. Be prepared to discuss these questions: Which countries appear most often on your list? Are there several countries from the same geographic region? What are some possible similarities among these countries? What are the economic advantages of these countries being involved in clothing manufacturing?

30. The products of Coca-Cola, Kellogg's, General Mills, and other companies are sold in many countries. These businesses often use brand names, logos, or other visuals that are recognized around the world. At the same time, the product or package might need to be adapted to address cultural differences in different countries.

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a. Visit the website of a company that produces a popular product and locate information about its international operations. Obtain information about a product sold in several countries. Describe to the class how the company adapted the product or packaging in another country. Illustrate your talk with images from the website.

b. Locate a website with information about the culture of a country. Write a paragraph describing an element of the culture that the company might need to consider when doing business in that country.

c. Share the information you discovered in your research with a family member or friend. Ask the person for reactions about the company's global business activities.

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Emerging Business Issues Event

In many countries around the world, one of the most striking changes in food and retailing over the past two decades has been the rise of private labels, also known as store brands. The term *private label* describes products manufactured for sale under a specific retailer's brand. They are often designed to compete against branded products, offering consumers a cheaper alternative to national brands. Though they were once considered knock-offs of name brands or even generic "no-name brands," private labels have become increasingly accepted by the public. Many consumers now consider private labels as acceptable alternatives to national brands. Private labels offer many benefits to both retailers and customers, driving the segment's rising popularity.

Each team of two or three members must conduct research to gather facts regarding private labels and the impact they have on retailers and consumers. Students should brainstorm the benefits and drawbacks of private labels to both retailers and customers.

Teams also should give examples of the most successful private label brands. Teams will be permitted to bring prepared materials, written or printed, on white 8½" by 11"paper or note cards. One 4" by 6" index card will be given to each participant and may be used during the preparation and presentation.

Each presentation may last no more than five minutes. Following each oral presentation, judges may conduct a five minute question and answer period during which the presenters should be prepared to defend their research.

Performance Indicators Evaluated

- Demonstrate sound research with the information gathered.
- Present the rationale in a clear and logical manner.
- Provide supporting information for each point made.
- Choose examples that are relevant to the audience.

You Will Be Evaluated on

- Organization of your oral presentation.
- Rationale of your presentation.
- Speaker responded to questions fully, knowledgeably, and without hesitation.

Think Critically

1. What can name brands do to compete with private labels?
2. How do private labels differentiate themselves from national brands?

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Chapter 4

Human Resources, Culture, and Diversity

4.1 Human Resources Basics

4.2 Managing Human Resources

4.3 Organizational Culture and Workforce Diversity

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PLANNING A CAREER IN . . .

HUMAN RESOURCES

Businesses with a long history of success recognize the importance of their employees. A highly skilled, motivated workforce can provide a competitive edge. Companies often spend more money on their personnel than on any other resource. With so large an investment, companies need professional human resources personnel to recruit, train, motivate, and compensate employees.

The goal of human resources is to ensure that the right people are in the right jobs at the right time. This is accomplished by hiring the best people, maintaining a work environment that encourages productivity and satisfaction, and offering programs that allow employees to develop skills to meet rapidly changing job requirements.

Large human resources departments are made up of a number of specialists. They work closely with managers, heads of departments, and employees to ensure that employees are available, capable, and willing to work. They also make sure employees are paid and recognized for their contributions.

Related Job Titles

- Director of Human Resources
- Benefits Specialist
- Employment Recruiter
- Employee Relations Manager
- Organizational Development Consultant
- Training Specialist
- EEO/Affirmative Action Representative
- Labor Contracts Negotiator
- Job Analyst

Analyze Career Opportunities in . . .

HUMAN RESOURCES

Use library and Internet resources to learn more about careers in human resources. Choose one of the job titles listed in the box and answer the following questions.

1. How would you describe the earnings potential for this field?
2. Is this a career that interests you? Explain how careers in this field match up with your goals and interests.

What it's like to work as a . . . Corporate Trainer

Amina is a trainer for a Saudi chemical production company. She has had an interesting career path, starting as a high school science teacher, followed by five years as a laboratory specialist. Six months ago, she applied for a training position in the company. In this new job, Amina combines her passions for teaching, science, and helping her co-workers.

As a trainer, Amina meets with managers to identify training needs. Those needs might be helping new employees learn their jobs, preparing experienced employees for new processes, or developing a teamwork course. Amina works with instructional designers and media specialists to prepare training materials. She must stay up to date with the latest educational technology in order to deliver training to employees located at sites all over the world.

What about you? What aspects of a career as a corporate trainer do you think you would find interesting?

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4.1 Human Resources Basics

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

4.1.1 Describe the nature of today's workforce.

4.1.2 Identify important goals and activities of human resources.

Key Terms

Workforce

Downsizing

Outsourcing

Focus on REAL LIFE

"Do you think we'll ever see the time when people don't have jobs because robots do all the work?" Sami asked Ali as they left the science museum after enjoying the latest robotics exhibition.

"It would be fun to think about never having to work but I think I'd get bored after a while," replied Ali. "Besides, I want to be an industrial designer. That will require creativity and I don't think robots can be creative."

Sami laughed and said, "There are probably lots of things robots can't do. Plus, even if computers and robots are able to complete even more complex tasks in the future, people will still be responsible for planning and programming the work."

"The creativity, personalities, and skills of employees are what really make a business," Ali responded.

"So we won't be replaced by robots," said Sami. "We'll just have to learn how to get along with them."

LO 4.1.1

THE CHANGING WORKFORCE

In Saudi Arabia, the **workforce** is made up of all eligible people who are employed or who are looking for a job. People can begin working from the age of 15, under certain constraints, as detailed in the Saudi child protection system. In 2021, the size of the Saudi workforce was more than 16 million people (source: World Bank). That includes everyone holding a full- or part-time job and those seeking employment.

For many jobs you need specialized training beyond high school or a college degree. Today's jobs offer a variety of working conditions and different wages and benefits. Some involve working mainly with machines and technology. Others deal mainly with people and information.

Types of Jobs

The business world consists of hundreds of thousands of companies offering a wide variety of jobs.

In general, there are two major types of industries in most developed countries. The *service-providing industries* include businesses that perform services that satisfy the needs of other businesses and consumers. Service companies include healthcare facilities, financial companies, retail stores, transportation businesses, and many others. *Goods-producing industries* include businesses that produce or manufacture products used by other businesses or purchased by final consumers.

FYI

Governments will often provide useful information about the jobs available to the workforce. The Labor and Employment section of the www.my.gov.sa website offers useful up-to-date information about the rules, regulations, and opportunities available to the Saudi workforce.

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These companies are involved in construction, manufacturing, mining, and agriculture. Figure 4-1 highlights the industry categories.

GOODS-PRODUCING INDUSTRIES	SERVICE-PROVIDING INDUSTRIES
Construction Manufacturing Natural Resources and Mining Agriculture, Forestry, Fishing and Hunting Mining, Quarrying, and Oil and Gas Extraction	Education, Health Care, and Social Assistance Services Financial Activities Finance and Insurance Real Estate, Rental and Leasing Information Services Leisure and Hospitality Arts, Entertainment, and Recreation Accommodation and Food Services Professional and Business Services Scientific and Technical Services Management of Companies and Enterprises Administrative and Support Services Waste Management and Remediation Trade, Transportation, and Utilities Wholesale Trade Retail Trade Transportation and Warehousing Utilities

FIGURE 4-1
In your opinion, which category, service-providing or goods-producing, accounts for more jobs in your community?

As discussed in Chapter 2, the Saudi economy continues to evolve. The key traditional Saudi industries are oil and gas, and mining for industrial minerals and precious metals like gold and silver. While these sectors continue to thrive at the leading edge of the industrial field, there is a shift in emphasis towards diversification in the economic sector, with many emerging job opportunities in the hospitality, tourism, cyber security, artificial intelligence, clean and renewable energy, and financial sectors, and wider service industries. An ambitious and dynamic workforce and a growing economy will ensure that there are jobs in every category.

Another way of looking at the changing workforce is to think about groups of occupations. Occupations are affected by short- and long-term changes in industries, technology, and the overall economy.

In some countries such as the U.S., different occupations have been grouped into two broad categories: white-collar and blue-collar. A *white-collar worker* is one whose work is more mental than physical and involves the handling and processing of information. Most white-collar workers are employed in offices and stores. They include professional, managerial, and clerical workers. A *blue-collar worker* is one whose job involves more physical work, including the operation of machinery and equipment or other production activities. Blue-collar workers are employed in factories, on construction sites, on farms, and in the delivery of many basic services. With the growth of service industries, a new category of worker has emerged. *Service workers* produce intangible goods for businesses and consumers. Some service jobs require high levels of education and skill. Others do not.

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Work as a TEAM

Each year, *Fortune* magazine and the Great Place to Work Institute identify the "Best Companies to Work For" around the world. These rankings are based on surveys taken by the employees of many top companies. As a team, make a list of ten things a company can do that you believe would help it make it to the "Best Companies . . ." list.

Changing Job Requirements

White-collar, blue-collar, and service workers are all necessary in the workforce. Increased use of computers and information technology in factories, on farms, and in construction is changing the nature of many types of work. The changes call for higher levels of education and training.

A variety of factors will drive the evolution of work in the future. Among these factors are consumer preferences, economic cycles, new technologies, and business competition.

Consumer Preferences Jobs are affected by consumer demand for a product or service. Sometimes new products entering the market make existing products obsolete. Workers making the old products may find that their jobs are changed or even eliminated. New jobs may be created by the demand for the new products.

Economic Cycles Changes in the economy affect job opportunities. When businesses expand because consumers buy more goods and services, new jobs are created to meet the growing demand. More workers are employed and earn more money. In turn, they are able to spend more on goods and services. Higher prices may cause consumers to decrease the amount they buy. In many countries around the world, when interest rates increase, both businesses and consumers find it difficult to borrow money. Demand for goods and services decreases. As a result, jobs may be eliminated or work hours may be reduced. Consumer spending and demand is decreased even more as the economy slows.

New Technologies *Technology* refers to the use of automated machinery, electronic equipment, and integrated computer systems to help increase the efficiency of producing goods and services. Technology is important in the work environment. It improves efficiency so that businesses may stay competitive. Modern advances including artificial intelligence, 3D printing, and robotics have greatly reduced the need for production workers in many manufacturing industries. These include steel, autos, tires, and consumer electronics. Sophisticated cloud-based communications systems have also reduced the need for office employees such as administrators and accountants. New technology continues to change the types of jobs in production and manufacturing. It has also changed how most office workers, service workers, and professionals perform their jobs.

Name ways in which automation and technology change the way manufacturing businesses operate.

Business Competition Companies must be competitive in order to stay in business. Businesses are now looking for talented, entrepreneurial, and highly-skilled human capital in order to remain competitive. Installing new equipment and streamlining processes make workers more productive. Businesses may also decide to downsize. **Downsizing** is a planned reduction in the number of employees in order to cut costs and make a business more efficient. **Outsourcing** removes work from one company and sends it to another company that can complete it at a lower cost. According to a March

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2022 report, 'Saudi Arabia Manpower Outsourcing Market Forecast to 2028', the Saudi outsourcing market was approximately SAR 10 billion in 2021.

Life-Span Plan

Explain why it is necessary to understand changes that are taking place in the workplace, such as new technological developments, when you set your life-span goals.

CHECKPOINT

What are several strong influences on changes in the workforce?

LO 4.1.2

HUMAN RESOURCES OVERVIEW

The work of every company is completed by the organization's employees. Employees who have the knowledge and skills needed, who are motivated to work efficiently, and who complete their jobs with quality contribute to the success of the business. Companies that have difficulty finding qualified employees, have a poor work environment, and suffer from quality issues, waste, and employee errors will have difficulty remaining competitive or meeting customer needs.

Human resources are the people who work for a business. Human resources include management and employees, full-time and part-time workers. People hired to fill temporary positions as well as those who have worked for the company for many years are human resources. Managing human resources is one of the most important responsibilities of a business. Most medium- to large-sized businesses in developed countries have a department devoted to human resources management and activities.

Human Resources Goals

Human resources are different from almost every other resource needed by businesses. They bring varied knowledge, skills, experience, and motivation to their jobs. People are used in different ways in a company. Some will be required to do hard, physical labor. Others will operate complex equipment. Some employees will work in groups where they must have effective interpersonal skills and demonstrate teamwork. Others will work independently, relying on their own abilities. Managers will direct the work of others and make decisions and plans that can affect the entire company. New employees must be willing to follow directions and may have few decision-making responsibilities at first.

Human resources must be able to work with the differences and unique capabilities of each employee and develop a workforce that is productive and efficient. There are seven major human resources goals.

1. Identify the personnel needs of the company.
2. Maintain an adequate supply of people to fill those future needs of the company.
3. Match abilities and interests with specific jobs.
4. Provide training and development to prepare people for their jobs and to improve their capabilities as job requirements change.
5. Develop plans to give personnel compensation for their work.
6. Protect the health and well-being of employees.
7. Maintain a productive and satisfying work environment.

Think of the places you frequent regularly. What types of workers are visible? Are there "behind the scenes" employees?

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Meeting the ongoing need for training and retraining employees is one of the many challenges a human resources manager might encounter. What are some others?

Human Resources Activities

The work of the human resources is divided into four categories: planning and staffing, compensation and benefits, performance management, and employee relations. Specific human resources activities for each of the categories are listed in Figure 4-2 on page 119.

Planning and staffing activities are directed at identifying and filling all of the jobs in the company with qualified people. *Compensation and benefits* concerns planning and managing payroll, personnel records, and benefits programs. *Performance management* involves evaluating the work of employees and improving performance through training and development. *Employee relations* is responsible for maintaining a safe, healthy, and productive work environment for all employees.

HUMAN RESOURCES ACTIVITIES			
PLANNING & STAFFING	COMPENSATION & BENEFITS	PERFORMANCE MANAGEMENT	EMPLOYEE RELATIONS
• Job analysis • Recruitment and selection • Job placement	• Wage and salary planning • Benefits planning • Payroll, benefits, and employee records management	• Performance assessment • Performance improvement • Managing promotions, transfers, and terminations	• Health and safety planning • Labor relations • Employment law and policy enforcement • Organizational development

FIGURE 4-2

Which activities do you think are the most important to the success of the business? Explain your answer.

CHECKPOINT

What are the seven major goals of human resources?

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4.1 ASSESSMENT

Key Concepts

Determine the best answer.

1. Which of the following is not an example of a goods-producing industry?
   a. construction
   b. manufacturing
   c. healthcare
   d. mining

2. Which of the following is not a typical human resources activity?
   a. staffing
   b. employee relations
   c. performance management
   d. sales

3. A person whose work is more mental than physical and involves the handling and processing of information is a
   a. blue-collar worker
   b. human resources manager
   c. white-collar worker
   d. entrepreneur

4. Which of the following would *not* be a part of a company's human resources?
   a. managers
   b. full-time employees
   c. temporary employees
   d. All would be included as human resources.

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Make Academic Connections

5. **Math** The population of Saudi Arabia is approximately 36 million in 2022 (source: UN data). If 6 million people are not employed, What is the unemployment rate?

6. **Art** Create a collage on poster board that illustrates the many activities that are a part of human resources. Clip pictures from newspapers and magazines that represent the four broad categories of activities. Show your collage to other students and describe the activities you illustrated.

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4.2 Managing Human Resources

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

4.2.1 Identify important planning and staffing activities.

4.2.2 Describe compensation and benefits plans.

4.2.3 Recognize the goals of performance management.

Key Terms

Job Analysis
Compensation
Salary and Wages
Benefits
Incentive Systems
Promotion
Transfer
Termination

Focus on REAL LIFE

"How was your day?" Bushra asked her business partner as she dropped into a chair after a busy day.

"It was fine until Sara came to see me," Layla responded as she looked up from the report she was reading. "She is going to work for a competitor."

"That's a shame," said Bushra, "She is great with customers and her work is terrific. Did she say why she is leaving?"

"The usual reasons: better benefits and more opportunities for advancement," Layla replied.

"We need to look for a replacement right away," Bushra said. "I'll call the staffing agency tomorrow."

"Maybe we should take our time and think about our needs. It might be time to plan a better hiring strategy rather than just quickly replacing people when they leave," Layla said.

"Layla, you're right. We should turn this in to an opportunity for reviewing the way we manage our human resources. I bet there are things we can do to be more competitive. We especially need to focus on ways to retain our talented employees."

LO 4.2.1

HUMAN RESOURCES PLANNING AND STAFFING

Human resources management ensures that needed employees are available, productive, paid, and satisfied with their work. If human resources management does its job well, the company will have employees who do their jobs well. This contributes to a successful, profitable business.

Planning and Job Analysis

Human resources management begins by analyzing where the business currently is and where it wants to be in the future, planning the number and type of workers needed to meet the proposed business activities. The decision to hire people must be made carefully. Once an employee is hired, the person's salary must be paid whether the company is profitable or not. An employee should be hired when the work of that employee will add more to the company's profitability than it will cost.

Classifying Employees The company must decide whether the person to be hired will be permanent or temporary. A *permanent employee* is one to whom the company makes a long-term commitment. It is expected that the employee will work for the business as long as the business is profitable and the employee's performance is satisfactory. A *temporary employee* is one hired for a specific time or to complete a specific assignment.

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Why would a business choose not to advertise a job opening outside the company?

Because permanent employees feel that they are a part of the business, they are often more productive than temporary employees. On the other hand, there is more control over the company's resources when temporary employees are hired. The employee is paid only until the temporary assignment ends. Temporary employees are usually hired during a busy time for the business or when a special task needs to be done.

Whether permanent or temporary, employees can be hired full-time or part-time. A *full-time employee* regularly works between 40 to 48 hours a week. A *part-time employee* has a shorter work schedule with either fewer hours each day or fewer days each week. In Saudi Arabia, the law stipulates that the maximum number of hours a person can work is 48 hours, and this is reduced to 30 hours for Muslim employees during Ramadan.

Determining Job Requirements Before starting the hiring process, human resources staff studies the work that must be done in the job. Specific information about each job is needed in order to hire people with the right skills. That information is often collected by completing a job analysis. A **job analysis** is a specific study of a job to identify in detail the job duties and skill requirements. Human resources staff study the current job in detail by observing the work and talking with employees and managers. They identify all important job duties, as well as the knowledge and skills required to successfully complete the job. The job analysis helps determine if the needs of the business can best be met with temporary, permanent, part-time, or full-time employees.

Recruiting and Hiring

Once the specific need and skill requirements are determined, prospective employees meeting the requirements must be located. If this search is not done carefully, an employer may spend a great deal of time and expense and an appropriate employee may still not be found. Several good sources of prospective employees exist and are identified in Figure 4-3. Businesses should use sources that will provide an adequate number of qualified candidates for the position. The candidates should have the skills required for the job and an interest in working for the business.

The Application Process Most companies ask prospective applicants to fill out an employment application. The application gathers personal information, information on education, and work experience history. It may also ask for specific skills related to the job and contact information for people who can serve as references. The applicant may be asked to submit a résumé as well. Applications are used to eliminate people who are clearly not qualified for the job and to identify those who appear to be especially qualified.

Once applications have been reviewed, the remaining applicants are studied more carefully. Information is checked for accuracy. References are contacted. The employer selects a few applicants to interview. These applicants may be asked to complete special tests related to needed job knowledge and skills. During the interview, the applicant may be introduced to the work area, managers, and co-workers. The applicant will be given more detailed information about the company and the job. Finally, the applicant whose qualifications best match the job requirements will be offered the job.

New Employee Orientation The final step in the hiring process is to help the new employee get a good start in the company. As a part of the orientation, the new employee will meet with human resources specialists to complete all of the forms and documents needed to receive pay

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EFFECTIVE SOURCES FOR RECRUITING PROSPECTIVE EMPLOYEES	
Company employment office	Online recruiting websites such as LinkedIn
Company websites	Newspaper advertising and print
Employment agencies, public and private	Placement offices in school and college
Executive recruiters	Radio and television advertising
Industry publications	Referrals by employees
Job search and career websites	Social networking

FIGURE 4-3
Why do employers often use multiple sources when recruiting new employees?

Business Insight

Upskilling the Workforce

One of the most important aspects of Saudi Vision 2030 is the people responsible for making it a success. This includes not only those Saudi citizens and others who are currently working to realize its objectives, but also, crucially, the future generations who will one day enter the workforce. Any project can only succeed with the right level of determination, skills, and organization behind it. As such, Saudi Arabia is not just investing in its infrastructure, but also its people, with a range of initiatives aimed at training and developing workers, and equipping them with the necessary attributes to act competitively on a global scale.

The Human Capability Development Program is one such example. According to Saudi Vision 2030, the program is nurturing these core capabilities, "by instilling values and developing basic and future skills, as well as enhancing knowledge. The program focuses on developing a solid educational base for everyone to instill values from an early age, while preparing the youth for the future local and global labor market." There is an emphasis "on upskilling citizens by providing lifelong learning opportunities, supporting innovation and entrepreneurship culture."

Another related initiative is the Tamheer Program, which, according to the official government website, provides training in the workplace, "to develop the graduates of Saudi and foreign universities, institutes and colleges' skills." The program caters for both recent graduates and employees with existing experience, by providing training placements in private sector businesses and government agencies.

Think Critically

1. How can a training placement with a government agency help a young graduate start their career?
2. Why is training in the workplace important in addition to formal education?

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and benefits. This will also allow the company to develop a complete employee record. There will usually be several days of training. The employee may be paired with an experienced co-worker, or mentor.

The mentor answers questions and helps the new employee solve problems and build confidence for the new job. The company may have a probationary period of several weeks to several months. During that time, the new employee is evaluated to ensure job performance is meeting the company's expectations.

Work as a TEAM

Automobile dealerships have traditionally paid their salespeople with a straight commission. Some dealerships now pay each salesperson a salary and add a bonus based on customer satisfaction surveys. As a team, discuss how this change might affect the performance of the salespeople and why the dealerships may have chosen to make the change.

CHECKPOINT
Why do human resources personnel need to study jobs before beginning the hiring process?

LO 4.2.2

COMPENSATION AND BENEFITS

One of the reasons people work is to earn money. **Compensation** is the amount of money paid to an employee for work performed. Compensation is made up of two parts. **Salary and wages** are direct payment of money to an employee for work completed. Compensation in forms other than direct payment is known as **benefits**. Examples of benefits are insurance, vacations, retirement plans, and health and fitness programs.

Compensation Methods

A *time wage* pays the employee a specific amount of money for each hour worked. A *straight salary* pays a specific amount of money for each week or month worked. Neither of these types of compensation are based directly on the amount or quality of work done, but are determined by the amount of time spent on the job. For that reason, it is a simple system to manage. The business just has to keep records on the amount of time each employee works.

If you were a telemarketer, would you rather be paid commission on your sales or an hourly wage rate? Explain your answer.

Incentive systems connect the amount of compensation to the quality or quantity of an employee's performance. Some businesses pay a *commission* to their employees in which an employee is paid a percentage of sales for which he or she is responsible. Salespeople are often compensated with commissions. Another pay-for-performance plan is known as a *piece rate*. An employee receives a specific amount for each unit of work produced. Piece rates are commonly used in manufacturing, agriculture, and service centers. For example, workers might be paid a piece rate for each seam they sew, each call they answer, or each claim they process.

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Some companies use a *base plus incentive* compensation system. This system combines a wage or salary with an additional amount based on the employee's performance. One type of base plus incentive plan is profit sharing. With profit sharing, employees receive their regular compensation plus a share of the profits earned by a company. This system encourages commitment, teamwork, and effective job performance so that profits will be high.

Employee Benefits

For many businesses around the world, the cost of providing employee benefits amounts to an extra 20–40% on top of the cost of the employee's wages. If an employee earns SAR 100 an hour, 30% added for benefits increases the hourly cost to SAR 130. If the employee works 40 hours a week, his gross salary can be over SAR 249,000 per year.

In most countries, employment laws require some benefits. Most businesses must offer and pay the cost of these required benefits. Benefits include compensation for overtime hours worked, social security, and contributions to funds to compensate injured employees and unemployed workers. In some parts of the world, full-time employees may expect their employer to offer insurance plans such as health, dental, and disability insurance. In Saudi Arabia, private sector companies are required by law to provide health insurance for their employees, including their families.

What kinds of benefits are important to you?

Time away for vacations is another popular benefit for employees. According to Saudi Labor Law, workers have a right to 21 days of paid annual vacation. Paid vacations are a costly benefit because employees are paid for time when they are not working. On the other hand, the time off may result in a more satisfied and productive employee. Other benefits offered by businesses include retirement savings plans, personal or sick days, and flexible work schedules.

CHECKPOINT ✓
List three types of incentive systems for employee compensation.

LO 4.2.3

PERFORMANCE MANAGEMENT

Managers work closely with their employees to make sure work goals are accomplished as planned. Every employee is expected to meet quality standards as well as work efficiently. In addition, employees must demonstrate effective working relationships with co-workers, managers, and customers. As jobs change, new equipment and procedures will be introduced. Employees must upgrade their skills to meet the changing job requirements. Most companies offer training and development programs to help employees perform their work well.

Employee Evaluation

Managers should evaluate the work of each of their employees on a regular basis. The human resources department is in charge of developing the evaluation procedures and forms. Managers are trained to complete objective evaluations and hold effective evaluation meetings with employees. Human resources maintains the records of employee evaluations in each employee's personnel file.

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The Evaluation Process Performance evaluations focus on the specific job duties of each employee. They also review the important work qualities expected of all employees. Those qualities include factors such as communication, interpersonal relationships, quality and quantity of work, and ethical behavior.

Managers are given evaluation forms to complete. Evaluation decisions are based on observations of the employee's performance and review of the quantity and quality of the work. When teamwork is involved, co-workers may be asked to provide feedback as well. Using the evaluation form, the manager rates specific skills and identifies each employee's strengths and areas that need improvement. The outcomes of the evaluation appraisal are communicated to the employee in the form of oral or written feedback.

Promotions, Transfers, and Terminations

Employees expect that if they work for a company for a long time and perform well, they should be rewarded with increased pay and the chance of promotion. A **promotion** is the advancement of an employee to a position with greater responsibility. Companies want to keep good employees. They want to place good employees in positions where they can provide the most benefit to the company. Depending on the number of available positions, the company should fill openings by promoting current employees. High-performing employees should then be motivated to stay with the company and continue to work effectively.

In some cases, a promotional opportunity may not exist, but employees want to change jobs. Some jobs in a company may be eliminated while others are being created. Employees may be able to accept a job transfer. A **transfer** is the assignment of an employee to another job in the company with a similar level of responsibility. A job transfer may provide a new challenge for an employee or offer a better match for a person's skills.

Is earning a good wage or salary enough for you to be satisfied with your work? What else do you expect?

If performance does not meet the company's expectations or if jobs are being reduced, the company may have to terminate employees. A **termination** ends the employment relationship between a company and an employee. The termination may be a *discharge* that ends employment due to inappropriate work behavior. Another type of termination is a *layoff*, which is a temporary or permanent reduction in the number of employees due to changing business conditions. The company should complete all terminations carefully. The terminations must meet legal requirements and the company must be as helpful as possible to the employees who are asked to leave the business.

CHECKPOINT
What is the purpose of an evaluation meeting?

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4.2 ASSESSMENT

Key Concepts

Determine the best answer.

1. An employee to whom a company makes a long-term commitment is considered to be
   a. full-time
   b. part-time
   c. permanent
   d. temporary

2. True or False. Companies should interview all prospective employees who apply for a job.

3. For most businesses around the world, the percentage of employees' compensation spent on benefits is
   a. less than 5%
   b. 10%–20%
   c. 20%–40%
   d. more than 50%

4. The employment relationship between a company and an employee is ended with a(n)
   a. termination
   b. interview
   c. evaluation
   d. lawsuit

Make Academic Connections

5. **Math** Halima is paid SAR 3,100 a month and a commission of 2% on all sales. She also is given a yearly bonus of SAR 4,500. If Halima's sales for the year are SAR 186,200, what is her total compensation for the year?

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6. **Research** Use the Internet to locate four different sources of current job opportunities. Develop a table that compares the sites in terms of their effectiveness in providing information about the job, the company, and the procedure applicants should follow in applying for a job.

7. **Critical Thinking** You are a human resources specialist giving advice to a new supervisor on how to conduct a performance evaluation meeting with an employee. List three recommendations you would make to the supervisor that will contribute to an effective meeting.

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4.3 Organizational Culture and Workforce Diversity

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

4.3.1 Recognize factors that contribute to an effective organizational culture.

4.3.2 Describe the benefits of diversity to an organization, individuals, and society.

Key Terms

Organizational Culture

Work Environment

Work Committee

Diversity

Focus on REAL LIFE

Three years of related employment experience required. Ibrahim, a recent graduate, reads this line in a job description and decides he is not qualified even though he has all the skills the job requires. Ibrahim doesn't think the employer will recognize the skills he has developed through leadership activities and community service.

Must be energetic and eager. Mariam, who is 58, sees this phrase as she views job postings on a career website. She doesn't bother to apply for the job because she believes the employer must be looking for young people.

Can employment advertisements intentionally or unintentionally discourage otherwise well-qualified people from applying? To build the best workforce, job recruitment should focus on the skills and abilities needed to do the work, not on the type of person the manager believes would be best for the job.

LO 4.3.1

DEVELOPING AN EFFECTIVE CULTURE

The ways businesses are organized and operated have changed a great deal in the past few decades. Some of the changes are obvious. Technology has reduced the need for low-skilled employees and demanded that current workers have much greater skills. The Internet has changed the way consumers and businesses communicate, share information, and buy and sell. Globalization of business has resulted in greater competition. It has also resulted in more opportunities for every business to reach many new customers.

Other changes are just as important but not as clear. The workforce is more diverse, with growth among both younger and older workers. Jobs are changing, with a larger temporary and part-time workforce and a rise in the number of successful small businesses. Jobs are being shifted to other countries in an effort by businesses to cut costs. The number of manufacturing jobs is declining while service jobs are growing at a rapid pace. Some of the service jobs require little skill. Others are complex jobs requiring technical knowledge, creativity, and decision-making skills.

Businesses have to respond to all of the changes and maintain a positive organizational culture. An **organizational culture** is the environment in which people work, made up of the atmosphere, behaviors, beliefs, and relationships. An organizational culture shows people how they will be treated and how they are expected to treat others in the work environment and field of work. It identifies what is acceptable behavior

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and what is not. If a company has a positive organizational culture, employees enjoy going to work. They have positive working relations with co-workers and managers. They believe the organization values them and their work. They are motivated to do a good job for the company.

Work Environment

The **work environment** is the physical conditions and the psychological atmosphere in which employees work. The physical conditions are the work area, offices, break rooms, and all other spaces where employees spend time while at work. Tools and equipment, lighting, temperature, and air quality are also a part of the physical work environment. The physical conditions must be safe and healthy. That is certainly a legal requirement of businesses. A business with a reputation for safety and health problems will have difficulty attracting and keeping employees.

In addition to the physical conditions, companies need to provide a positive psychological atmosphere. It is important in assuring employees that the company has their interests at heart. Employees do not want to work in a place where they feel they are mistreated or where their work and ideas are not valued. An atmosphere of mistrust or fear is likely to result in low employee morale and poor performance.

Not all jobs can be physically comfortable. Some require people to work outside in very hot or cold conditions. Other jobs require a great deal of physical effort or can be quite hazardous. Even in those jobs, the business needs to find ways to provide as much physical comfort and safety as possible. The business should offer protective clothing and equipment, allow needed breaks, and ensure that every employee receives adequate safety training.

Offering a positive psychological environment means that managers are trained in effective communications and interpersonal skills. They are honest, fair, and ethical in their treatment of each employee. Employees get important information from their managers rather than from rumors through unofficial channels. They believe their work is important and valued. They are recognized and rewarded for their contributions to the company.

Would you rather work inside or outside? Alone or in a group?

Work–Life Relationships

Around the world, people seem to be working more days and longer days. Some people hold two or more jobs. There are many two-career families. Balancing work and personal life is a very important issue for most employees. Work–life surveys generally find that a majority of people would give up additional income from overtime work to be able to spend more time with their families.

A positive organizational culture is one that respects the pressures on employees from outside of the job. It offers ways for employees to meet those demands while also fulfilling the requirements of the job. Some of those ways include personal time, flextime, job sharing, and flexplace.

Many companies now offer personal time for employees to complete nonjob activities that can only be done during work time. It is hard to schedule a dental or medical appointment, visit a child's school, or renew a driver's license while working. *Personal time* is a few hours each month that can be scheduled for nonjob activities. Some companies even offer paid time for

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employees to volunteer at schools or other community organizations.

Flextime allows employees some choice in how their work days and work hours are arranged. Some employees may start and end their work day earlier or later than normal. They may be able to work a longer day and thereby work fewer days each week. *Job sharing* offers one job to two people. Each person works a part-time schedule. They share the work space and duties of the job. *Flexplace* means that some employees can complete part or all of their work away from the business site. Telecommuting is becoming increasingly popular. Employees who primarily use computers and other personal technologies may be able to work from home. They communicate with managers, co-workers, and customers using the Internet, telephone, and other technologies. The Saudi Telework Program encourages teleworking, especially in light of the opportunities it offers for women and disabled members of the workforce.

Some of the strategies for improving work–life relationships cost companies very little. Others do have a cost but often result in reduced absenteeism, lower employee turnover, and happier and more productive employees.

Life-Span Plan

How important do you believe flextime or job sharing would be to you in choosing a career? Explain why work–life relationships are important when people set their life-span goals.

Which work–life program might allow a parent to take time off to take a child to a medical appointment in the middle of the day?

Employer–Employee Relations

Both managers and employees want their business to succeed. Unprofitable businesses have to reduce the number of employees they hire. They must limit salary and benefit increases. Working together to make the business successful should benefit everyone. Managers and employees do not always have the same immediate goals. Managers must make sure that a company makes a profit. They try to get more work done at a lower cost. Employees are more concerned about compensation, working conditions, job security, and nonwork issues.

Many years ago, a boss made all of the important decisions and told employees what to do. Employees had little input as to what they did or how they did it. Each person was assigned a specific job. They often had little interaction with other employees while they worked.

NET KNOWLEDGE

In Saudi Arabia, employer–employee relations are governed by the Labor Law, which was established by Royal Decree M/51 on 23 Sha'ban 1426/September 27 2005. The Labor Law relates to wages and salaries, benefits, employment contracts, health and safety, and many other issues. Locate the Saudi Labor Law on the Internet and identify three different employment laws that would apply specifically to you and your classmates if you held a part-time job. Prepare a brief description of each law and what an employee or employer must do to comply with the law.

That approach often left employees thinking that their ideas were not welcomed or appreciated. They believed they knew a great deal about their jobs and the business and could offer suggestions to improve the way work was done. Those differences led to disagreements and conflicts between many employers and their employees.

Even though there are differences between management and employees, there may be more things that are alike than different between the two groups. When managers and employees work

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together, they often can find ways to accomplish the goals of both the organization and the individuals who work for it. Managers who involve employees in decision making find that better decisions can result. Employees are more likely to support those decisions. Employees discover that when they cooperate with management, managers have a better understanding of their needs and expectations. Both groups, as well as the organization, benefit through cooperation.

What are the benefits of involving employees in decision making?

Work Committees

In Saudi Arabia, where a company employs more than 100 Saudi workers, they can establish work committees that look after the interests of all employees in the company. The role of the **work committee** is to act as a link between management and workers. The aim of such committees is to improve working conditions for workers and to deal with concerns like health and safety issues. The work committees bring opportunities for building good relationships between management and workers, and for boosting employee morale.

Companies and work committees work together on issues that affect the success of the business and the work life of employees. Examples include job training to keep employee skills up to date, employee assistance if a business site closes, and improving product quality to make businesses more competitive.

CHECKPOINT
What are some ways that companies help employees meet personal demands outside the job?

LO 4.3.2

WORKFORCE DIVERSITY

Imagine a world where everyone looked, thought, and acted alike. The world is diverse, and that diversity continues to grow. But business don't reflect diversity. Even in companies with a diverse workforce, diversity is not always reflected in various job categories or in management positions.

A business that has a diverse workforce will be much more attractive to prospective employees and customers. When people with diverse backgrounds and characteristics are promoted into leadership and management positions, it will offer encouragement to others like them.

Benefits of Diversity

"Workplace diversity" has many definitions. The basic definition of **diversity**, as it applies to the workplace, is the comprehensive inclusion of people with differences in personal characteristics and attributes. Some important characteristics, for example, diversity in age, race, etc., are recognized in equal employment legislation for many countries around the world (see Figure 4-4 on page 133). Today, businesses working to build a diverse workforce use a much broader view of diversity. They try to build a broad workforce that reflects the communities in which they operate and the markets they want to serve. Diversity also includes hiring a workforce with diverse socio-economic status, culture, religion, and even personal interests, abilities, and values.

When people in an organization are more alike than different, there is often reduced creativity and innovation. There will be limited understanding of people who are different. Their attitudes, experiences, and needs won't be considered. It will be difficult to recognize and plan for those differences when developing products and services for customers who are different from the

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people in the company. Companies that build a diverse workforce see several benefits. The benefits can be classified as organizational, individual, and societal.

Organizational Benefits *Prospective employees and managers are drawn from the broadest possible employment pool.* The greatest increase in the labor force in the future will be women and older workers. If people from those groups are not considered, the company will have a much smaller pool from which to choose.

How might human resources managers help increase diversity in the workplace?

By following the diversity approach, the company will have a broader base of knowledge and understanding when making decisions. People with different backgrounds, experiences, and even ways of thinking and planning will be a part of the organization. They will bring new ideas on how to design processes, plan products, work and communicate with others, and provide leadership.

Prospective customers will have a more positive image of the company. Customers with diverse characteristics will see a company that values diversity. They will have a greater level of respect and trust for the company and its products. They will see their own views and interests represented within the company.

The company will be better at serving diverse markets. The company will understand similarities and differences in needs, decision-making processes, and communication strategies among diverse customer groups. Traditional stereotypes that may have upset consumers in the past will no longer be used.

Global business strategies will improve. Saudi Arabia has a very diverse workforce across most sectors, with foreign workers numbering around 11 million and coming from over 100 different countries in 2021. Saudi Vision 2030 aims for the country to be strong, prosperous, and accommodating to all. It aims to attract talented creative minds and entrepreneurs from everywhere. This offers Saudi businesses a unique advantage to recognize and understand global needs and differences. They have an advantage over companies from countries with limited diversity. At the same time, the government requires that all businesses in the private sector follow the Nitaqat (Saudi nationalization scheme) to employ a certain number of Saudi nationals according to the company's category.

Individual Benefits *All employees will have the opportunity to develop to their full ability.* This will lead to increased creativity and productivity. Businesses that value diversity work to remove obstacles so everyone has an opportunity to advance based on ability and performance. Saudi Vision 2030 aims to provide more opportunities for Saudi women and has a target of increasing the number of women in the Saudi workforce from 22% to 30%.

Individuals will feel they are respected and supported despite their differences. Employees who are different from the typical employee

EQUALITY AND DISCRIMINATION LAWS IN SAUDI ARABIA
• **Article 3 Labor Law:** All citizens have an equal right to work without discrimination.
• **Ministerial Decision 2370/1:** Men and women should not be discriminated in wages for work of equal value.
• **Article 28 Labor Law:** If an employer has 25 people in their workforce, and if the work is suitable for disabled people to perform, they must ensure at least 4% of their workforce consists of disabled people.

Source: https://hrsd.gov.sa/en/policies/labor-law-0, 2005; https://www.my.gov.sa/, 2010

FIGURE 4-4
How have these laws increased employment opportunities for all Saudis?

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Work as a TEAM

Many companies and organizations have developed diversity statements. As a team, use the Internet to identify and study examples of those statements from several companies. Select one that your team agrees is the best statement. Justify your choice.

do not have to hide those differences. They will feel like they matter despite their difference. Individual differences will be expected and viewed as a valuable part of the organization. Employees can comfortably represent their uniqueness when participating in planning and decision making.

Societal Benefits *Prejudice and discrimination will be reduced as a societal problem*. People involved in diverse organizations increasingly recognize and value diversity. This is true for neighborhoods, schools, and businesses alike. They lose their stereotypes and recognize the benefits that come from the acceptance and participation of every person.

The country has a more talented, experienced, economically successful workforce. Diversity opens more job opportunities for everyone. It allows people to develop and use all of their abilities. It increases access to higher-paying jobs for more people. Diversity in business leads to greater opportunities in society.

How does a new business benefit from the diversity and inclusivity of its human resources?

Developing a Diverse Organization

An organization's culture develops over many years. Employees and managers often become comfortable with the way things have always been done. It may be hard to recognize all of the ways that an organization makes it difficult for people from diverse backgrounds to be successful in the organization. The whole organization needs to be committed to diversity in order for the necessary changes to occur.

The following steps have been used successfully in a number of businesses and other organizations to increase diversity.

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1. **Develop a written commitment to diversity.** Prepare a mission statement that clearly communicates the company's values.
2. **Have the full support of top executives.** The top managers in the business must make diversity a priority in their written and oral communications and in their actions.
3. **Review evidence of diversity in the company.** Gather data on the diverse characteristics of all employees, managers, and customers. If any part of the organization does not reflect the diversity expectations, determine what is standing in the way and develop ways to make changes.
4. **Update policies and procedures.** Make sure that recruiting, hiring, performance evaluation, and promotion practices encourage diversity.
5. **Provide continuing diversity education.** Managers and employees benefit from increased understanding of inclusion and diversity. Participating in classes and workshops prepares employees to work more effectively in a diverse organization.
6. **Recognize and celebrate diversity.** Make diversity a part of the organization's culture. Have visible evidence of the variety of languages, art, and customs of employees and customers.

CHECKPOINT ✓

Identify several organizational, individual, and societal benefits of diversity.

4.3 ASSESSMENT

Key Concepts

Determine the best answer.

1. True or False. There are greater numbers of both younger and older employees in the workforce today than there were in the past.
2. A work committee is ______________ .
   a. a type of recruitment company
   b. a group that represents the interests of employees
   c. a club for retired workers
   d. another name for the senior management team
3. Which of the following is not typically viewed as a benefit of diversity?
   a. increased creativity and productivity
   b. wider pool of talent to draw from
   c. positive company image
   d. less work for employees to complete

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Make Academic Connections

4. **Social Studies** Use the Internet to identify data that describe the changing characteristics of the Saudi population. Develop a written report of your findings. Include at least three tables and charts to support your written report.

5. **Art** Working with other students in your class, create a bulletin board, exhibit, or display that illustrates the diversity in your school and community.

6. **Journalism** Select a business in your community and contact a company manager to schedule an interview. Prepare several questions on the steps the company has taken to increase diversity and the results of those steps. Record your interview. Use the information to prepare a 500–750 word feature for an online news service or business blog site.

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BUSINESS IMPROVING SOCIETY

COFFEE AND A CONSCIENCE

Drinking coffee, or qahwa, is ingrained in Saudi Arabian culture, bringing with it associations with good hospitality and time-honored customs. It can be enjoyed in a variety of ways, often brewed with spices such as cardamom or saffron, and with local preferences from region to region. There is now an increasingly wide range of stylish coffee shops dotted across Saudi Arabia, catering for all tastes from traditional to contemporary international style blends. Popular cafés in cities including Riyadh and Jeddah attract many customers who enjoy a quality brew with an ethical stance. For example, some coffee houses insist on serving coffee that supports the farmers and communities who produce the coffee, through Fair Trade practices.

How do coffee companies benefit from paying small coffee growers a fair maximum price for their coffee beans?

Green Mountain Coffee is an example of an international business with a belief that a company can be profitable and still have a social conscience. The company demonstrates a concern for the environment, for the people who grow and supply the coffee, and for the local and global community. Green Mountain Coffee is a partner and advocate in Businesses for Social Responsibility and the Fair Trade Partners.

Most coffee growers worldwide are small family farmers who are at the mercy of large coffee companies. Those companies had pushed the price paid for coffee beans to less than 70 cents a pound. The result was a drop in the income of small farmers to a level that didn't allow them to maintain their families' nutrition, health care, or education. Fair Trade Partners guarantee a fair price when they purchase a farmer's coffee beans. In return, they ask the farmers to use farming practices that result in high-quality products and that protect the environment.

Another program supported by Green Mountain is Coffee Kids, a nonprofit international organization. It is committed to improving the lives of children and families in the small mountain towns of coffee-growing regions around the world. The organization offers health care, nutrition training, educational scholarships, and money for local schools to improve the lives of children living in poverty.

Through the Community Action For Employees (CAFE) program, Green Mountain encourages employees to perform volunteer work while on company time. Every employee is allowed up to 52 hours each year in paid time off to volunteer for nonprofit organizations in their communities.

Think Critically

1. Why would a coffee company be willing to pay almost twice as much for their coffee beans than the large coffee companies pay?
2. How do you believe social programs affect customers' views of the company? Do you believe it affects the sales of their products? Why or why not?

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Chapter 4 Assessment

Review Business Concepts

4.1 Human Resources Basics

- There are more than 16 million people in the Saudi workforce. Changes in the economy may require employees to develop new skills and receive additional training. Consumer preferences, economic conditions, new technology, and business competition are strong influences on the workforce.
- Human resources are the people who work for a business. The major goals of human resources managers are to (1) identify the personnel needs, (2) maintain a supply of people to fill needs, (3) match abilities and interests with specific jobs, (4) provide training and development, (5) develop compensation plans, (6) protect the health and well-being of employees, and (7) maintain a satisfying work environment. The activities of human resources managers are planning and staffing, performance management, compensation and benefits, and employee relations.

4.2 Managing Human Resources

- Human resources management ensures that needed employees are available and that they are productive, paid, and satisfied with their work. If human resources management does its job well, the company will have productive and motivated employees who do their jobs well and contribute to a successful, profitable business.
- Compensation is the amount of money paid to an employee for work performed. Compensation is made up of two parts. Salary and wages are direct payment to an employee for work completed. Compensation in forms other than direct payment for work is known as benefits.
- The manager regularly evaluates the work of all employees. Performance evaluations focus on the specific job duties of each employee as well as the important work qualities and standards expected of all employees.

4.3 Organizational Culture and Workforce Diversity

- An organizational culture is the environment in which people work. It is made up of the atmosphere, as well as the behaviors, beliefs, and relationships among people. An organizational culture shows people how they will be treated and how they are expected to treat others. A positive organizational culture respects the demands on employees from outside of the job.
- Prospective employees and customers are attracted to work and shop in businesses where people like them work. Companies that build a diverse workforce see several benefits. The benefits can be classified as organizational, individual, and societal.

Think Critically About Business

1. Why are service-providing industries growing more rapidly than goods-producing industries? What effect will this trend have on the skills people need for careers in the next 10 years?

___

___

2. Provide several examples of the effect of consumer preferences on employment. What are some jobs that have increased and decreased in importance due to consumer demands?

___

___

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3. Small businesses usually cannot offer the same levels of wages and benefits to employees as large businesses. In what other ways can small businesses compete to hire and retain highly qualified employees?

____

____

4. In addition to offering health insurance benefits, what types of activities should businesses undertake to protect and improve the health and safety of their employees?

____

____

5. What are the advantages and disadvantages for a company in hiring part-time and temporary employees rather than full-time and permanent employees?

____

____

6. You are the economic development director for your community. Identify three service-providing companies that you believe could be successful in your community and offer the potential for many new jobs. Develop a short computer slide presentation for your board of directors introducing your selections and justifying your choices.

____

____

7. You are the human resources manager for a company and want to hire an accountant. List three good recruiting sources and justify your choices. If you wanted to hire a web designer, would your sources change? Why or why not?

____

____

8. Make a list of three benefits you would personally like to see a company offer its employees. How do you believe your list might change as your life situation changes?

____

____

9. Do you believe the physical conditions or psychological atmosphere of a business are more important to maintaining an effective work environment? Justify your choice.

____

____

10. In what ways can work committees bring positive change to the relationship between management and workers?

____

____

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Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
11.	benefits		**a.** Ends the employment relationship between a company and an employee.
12.	compensation		**b.** Removes work from one company and sends it to another company that can complete it at a lower cost.
13.	diversity		**c.** Amount of money paid to an employee for work performed.
14.	downsizing		**d.** Environment in which people work, made up of the atmosphere, behaviors, beliefs, and relationships.
15.	incentive systems		**e.** Compensation in forms other than direct payment for work.
16.	job analysis		**f.** The assignment of an employee to another job in the company with a similar level of responsibility.
17.	work committee		**g.** The comprehensive inclusion of people with differences in personal characteristics and attributes.
18.	organizational culture		**h.** A group of employees who act as a link between management and workers to improve working conditions and deal with concerns like health and safety issues.
19.	outsourcing		**i.** All the people 15 years and older who are employed or who are looking for a job.
20.	promotion		**j.** Physical conditions and psychological atmosphere in which employees work.
21.	salary and wages		**k.** The advancement of an employee to a position with greater responsibility.
22.	termination		**l.** Connect the amount of compensation to the quality or quantity of an employee's performance.
23.	transfer		**m.** Direct payment to an employee for work completed.
24.	work environment		**n.** A planned reduction in the number of employees needed in a firm in order to reduce costs and make the business more efficient.
25.	workforce		**o.** A study of a job to identify in detail the specific job duties and skill requirements.

Make Academic Connections

26. **Math** A small business budgets SAR 80 per employee per year for training costs. An additional SAR 50 is provided for the first year of training for each new employee. Last year the firm started with 35 employees and added 6 new employees. Both parts of the training budget have been increased by 10% for this year.

a. What was the total cost of training for last year?
b. What percentage of that amount was spent on new employee training?
c. With the proposed increase, how much will be spent for training each experienced employee and each new employee this year?
d. What will be the total cost of training for all employees if four new employees are hired this year?

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27. Read Companies participate in community activities to demonstrate that they value diversity. Find a news article that relates to a community activity or service project completed by a company in your city. Read the article and outline the major concepts presented in the article using bullet points. Include a properly formatted citation for your source. Possible sources include printed and online versions of newspapers, magazines, and business or organization websites.

28. Advertising Use the Internet or a newspaper to locate classified advertising for employment opportunities. Select a job of interest to you and find detailed listings from three different companies for that type of job. Develop a table that compares the three opportunities based on job duties, wages or salary and benefits, and work environment of the company.

29. Math Naima works for a store that pays her an hourly wage of SAR 10 plus a commission of 2% on all sales over SAR 500 per day. Her hours worked and daily sales for the past week are shown in the table.

a. How much did Naima earn in base salary and commission for each of the days she worked?
b. How much was the total of her base salary for the week?
c. How much was the total of her commissions for the week?
d. What were Naima's total earnings for the week?

Sunday	6 hrs	SAR 735 total sales
Monday	4 hrs	SAR 320 total sales
Tuesday	5 hrs	SAR 570 total sales
Wednesday	3 hrs	SAR 450 total sales
Thursday	8 hrs	SAR 1,050 total sales

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Make Your Case

Saud has operated a garden care business for many years. The business offers landscaping services including seeding and sodding lawns, applying chemicals and fertilizer, and regular lawn mowing. Saud has 25 employees. Many of them have worked for him for 5 to 10 years. He usually hires two or three new employees each year. In the past, Saud was not concerned about the skills of new employees. He prefers to find people who are interested in the work and want to learn. Yet the machinery he uses is getting more complex, and employees must know a great deal about safe handling of chemicals, detecting plant diseases, and effective lawn care. The local college has a two-year degree program in garden management. Saud is deciding whether to continue his present hiring procedure of allowing new employees to learn on the job, develop a training program to be offered to all employees, or hire only people who have completed the college program.

30. What are the advantages and disadvantages of each of the choices Saud is considering?

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31. If you were Saud's human resources manager, what choice would you recommend? Why?

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Interactions and Connections

32. Identify several people from your community who work full time. Ask them their views on the importance of maintaining a balance between their work life and their personal life. Ask them to identify ways they believe the company they work for supports or does not support a balance in work–life relationships. Based on your discussions, do you believe most of the companies are or are not sensitive to work–life relationships?

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33. Each year *Fortune* magazine publishes a list of the "100 Best Companies to Work For." This is not the only list that ranks employers. Several organizations, magazines, and websites publish lists of outstanding employers in specific industries or for particular types of workers. Because each set of rankings is based on different criteria, the companies appearing on each list may be different.

Looking at the lists and the criteria used to rank employers can provide insight into these businesses for consumers, investors, and potential employees. They give particular insight into companies that appear to be working hard to develop and maintain a positive organizational climate and work environment.

Think about the criteria you might use to rank companies as the best places to work.

Locate the website of an organization or magazine that provides an annual ranking of the best places to work.

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Choose a company from the list you found and visit the company's website. Describe your findings and offer your opinion about this company as a great place to work based on the criteria that are most important to you.

International Business Plan Event

Opening a business in another part of the world presents a unique challenge that requires a detailed business plan. The business plan is used to convince potential investors to financially support the international business idea.

This event may be completed by one to three students. Participants will conduct research for a specific international location, determine a business/product/service needed for the selected country, and prepare a business plan to convince investors about the soundness of the international plan.

Participants will prepare a business plan limited to 30 pages that includes an introduction for the business plan, trade area and cultural analysis, planned operation, and planned financing for the international business. The body of the business plan must be typed following the sequence outlined. Participants may bring a copy of the written entry or note cards and appropriate visual aids to use during the presentation. Participants have 10 minutes to present their international business plan. Five additional minutes are allotted for the judges or audience members to ask questions about the business plan.

Performance Indicators Evaluated

- Demonstrate critical thinking and problem-solving skills associated with starting an international business.
- Work effectively as a team.
- Demonstrate an understanding of the basic steps involved in starting a business in an international setting.
- Analyze information to derive data necessary for a convincing business plan.
- Present facts that support the rationale for locating a business in another part of the world.

Think Critically

1. Why is it important to research the culture of the location for a potential international business?
2. Why is it more difficult to obtain domestic funding for an international business idea?
3. What demographics should be considered when locating a business in another part of the world?
4. What sources can be used to locate solid financial information when developing an international business?
5. Why might investors be reluctant to support an international business idea during a recession?

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Chapter 5

Social Responsibility of Business

5.1 Business Ethics

5.2 Ethical Behavior in Organizations

5.3 Social Responsibility

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PLANNING A CAREER IN . . .

THE PRIVATE SECTOR

For most countries around the world, the private sector, or non-government employment, has the largest employment percentage, reaching 85% in the United States and 70% in China. In 2021, Saudi Arabia's private sector employment was less than 35%. However, Saudi Vision 2030 has set goals to grow the private sector and improve employment opportunities in small, medium sized, and large enterprises.

Related Job Titles

- **Employee**
- **Manager**
- **Vice President**
- **President**
- **Chief Executive Officer**

Graduates entering into private sector employment will follow a career path. This normally starts with a period of time as an employee, learning how to work in their field such as engineering, accounting, etc. As their skills grow, a private sector employee needs to learn how to work with and manage teams. This leads to a position as a manager, supervising employees to reach business goals. Successful managers will move up to higher levels of management and vice-presidential positions with responsibility over large divisions. For large businesses, the president is responsible for an entire business unit, such as the president of the Middle East division, and can oversee multiple vice presidents. The chief executive officer (CEO) is the highest-ranking person in a company responsible for the strategic planning and operations of an entire business enterprise. Successful private sector employees need to manage ethically. They also have the opportunity to transfer their skills across businesses, both in Saudi Arabia and internationally.

Analyze Career Opportunities in ...

THE PRIVATE SECTOR

Use library and Internet resources to learn more about careers in the private sector in an employment field that interests you. Choose one of the job titles listed in the box above and answer the following questions.

1. How would you describe the nature of the work? Include examples of things that might happen in a typical workday.
2. Is this a position that interests you? Explain how the positions in this field match up with your goals and interests.

What it's like to work in . . . The Private Sector

Majid started working as an engineer for a large petroleum company. Over five years he worked from a new employee to supervising a team in chemical production.

Because of Majid's reputation as a hardworking and ethical manager, he was approached by a new start-up company to take over a new product division as a vice president. Majid knows that this will mean more responsibilities, but also more opportunities. This means leaving a large corporation and moving to a dynamic growth company with more challenges and a higher salary.

What about you? Would this type of work interest you? What types of opportunities do you see in private sector employment that would increase your desire to work in those jobs?

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5.1 Business Ethics

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

5.1.1 Describe what is meant by business ethics.

5.1.2 Identify the types of ethical concerns that arise in the business world.

5.1.3 Explain the concept of Corporate Governance.

Key Terms

Ethics	Conflict of Interest
Business Ethics	Corporate Governance
Code of Ethics	

Focus on REAL LIFE

Hasan and Abdullah are young entrepreneurs and, inspired by Saudi Vision 2030, want to set up a new business together. They are both ambitious and have lots of ideas, although they don't always agree on every decision, particularly those regarding the company's direction.

Hasan thinks the business should only operate in Saudi Arabia, for local customers, whereas Abdullah thinks they should take advantage of the Internet and new technology to benefit from international customers and suppliers. While Hassan agrees this would open them up to a much larger market and provide a greater range of manufacturers for their products, he is worried that they will have less control over ethical considerations. He is concerned about workers' standards of some international suppliers, as well as the potential for inappropriate comments posted on the company's social media channels by customers in other regions.

LO 5.1.1

WHAT IS MEANT BY BUSINESS ETHICS

Managers must find ways to balance their business's socially responsible activities with the need to generate expected profits. An ethical business demonstrates values that attract employees, customers, and shareholders. In a highly competitive global business environment, an increasing number of companies are seeking to set themselves apart by developing a reputation for ethical and socially responsible behavior. This unit will outline the meaning of business ethics and identify the types of ethical concerns that arise in the business world. Larger corporations are faced with a challenge of implementing a corporate governance structure that ensures legal and ethical behavior across multiple divisions and countries with thousands of employees. Modern work is through teamwork participation and cooperation, so everyone should have a team spirit and perform their duties ethically.

Why is an understanding of ethics important for businesses?

Business Ethics

A socially responsible business engages in ethical business practices. **Ethics** are principles of morality or rules of conduct. Ethical behavior involves conforming to these rules. Unethical behavior violates them. **Business ethics** are rules about how businesses and their employees should behave in business situations. In most countries, ethical

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business behavior is set in statutory and contract laws, but still requires that managers enforce ethical behaviors.

The Saudi Labor Law adheres to the multiple concepts and pillars that govern business ethics in Islam. For example, those related to labor relations, non-discrimination, and other general behaviors and ethical practices. Ethical issues often arise out of a business's relationship with investors, customers, employees, creditors, suppliers, or competitors. Each of these stakeholder groups has specific concerns that exert pressure on the organization's managers. For example, investors want management to make sensible financial decisions that will boost sales, profits, and returns on their investments. Customers expect a firm's products to be safe, reliable, and reasonably priced. Employees demand to be treated fairly in hiring, promotion, and compensation decisions. Creditors require accounts to be paid on time and the accounting information presented by the firm to be accurate. Suppliers expect good communication and timely payments. Competitors expect the firm's competitive practices to be fair and honest. A code of ethics can help a business identify proper behavior.

Code of Ethics

A **code of ethics** is a set of rules for guiding the actions of employees or members of an organization. Saudi Basic Industries Corporation (SABIC) is one of the world's largest chemicals manufacturers. SABIC has a corporate code of ethics to ensure that it performs with integrity. Some of the areas covered in their code of ethics include antitrust statements and anti-corruption policies, as well as workplace environment, health, safety & security, and fair employment practices. Saudi Aramco, one of the largest companies in the world by revenue, has a code of ethics that commits the company to integrity, safety, and environmental protection, as well as stated commitments to employees, global competition, and to the shareholders of the company.

Figure 5-1 lists topics to consider when developing a code of ethics. Once established, the code should be a guide for all employees within that company. A code must be worded in terms of acceptable behaviors rather than forbidden actions. For Saudi Arabian companies, Islamic concepts and pillars that govern business ethics need to be considered.

The Saudi Ministry of Human Resources and Social Development has written a *Guide Manual to Business Ethics* to support businesses in their development of ethical business practices. Even with a code of ethics, the choice of proper behavior can cause dilemmas for decision makers within a business. Here are some examples of dilemmas:

- Should a company be responsible for offensive comments or privacy breaches posted by its customers on the company's social media channels?
- Should a company continue to produce a popular product after it discovers that it causes negative impacts on the environment?

GUIDELINES FOR WRITING A CODE OF ETHICS
1. Determine the purpose of the code.
2. Tailor the code to the needs and values of the organization.
3. Consider involving employees from all levels of the company in writing the code.
4. Determine the rules or principles that all members of the organization will be expected to adhere to.
5. Include information about how the code will be enforced.
6. Determine how the code will be implemented and where it will be published or posted.
7. Determine how and when the code will be reviewed and revised.

FIGURE 5-1
Do you think a code of ethics can increase a business's profits? How?

CHECKPOINT
What is the purpose of a code of ethics?

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LO 5.1.2

ETHICAL CONCERNS THAT ARISE IN THE BUSINESS WORLD

The ethical conduct of a business is largely determined by its top management. Executives who show strong moral character and make ethical business decisions set the ethical standards for a business.

The Saudi Arabia *Guide Manual to Business Ethics* has outlined that business ethics sets behavioral rules that should be observed by the worker (employees through management) toward his or her duties, to the community as a whole, and him- or herself.

Ethical Conduct Guidelines

Business ethics covers both generally expected practices and industry specific concerns. There are also common ethics and principles such as transparency where workers are able to ask questions and express opinions and management listens. Violation of business ethics should allow for disclosure and reporting. The work environment should have safe working conditions and promote mutual respect and morality. There should be justice, equality, and non-discrimination. There should not be any bribery, acceptance of gifts, corruption, and unauthorized fundraising.

As mentioned above, SABIC and Saudi Aramco have extensive business ethics policies and documents. Both companies have outlined policies of ethical behavior related to a commitment to integrity, safety and environmental protection, respect and privacy, and anti-bribery and anti-corruption. There is a commitment to shareholders to provide accurate records and disclosures. These global corporations also have a commitment to the communities where they operate to comply with local laws, observe human rights, and engage in charitable activities.

Companies concerned about the ethical behavior of their employees will set up educational programs and training on ethical conduct. These programs are designed to promote employee honesty and integrity. Program topics will vary based on the employment level. Employees are also trained on how to make ethical decisions on the job.

When considering the ethics of business situations, a worker should follow these guidelines:

1. Is the action legal?
2. Does the action violate professional or company standards?
3. Who is affected by the action and how?

In addition to workplace codes of ethics, many employees, including accountants and engineers, adhere to codes of professional conduct established by their professional associations. They also participate in continuing education related to ethical issues specific to their professions.

A common concern in ethical decision making involves a **conflict of interest**. This can occur when an action by a company or individual results in an unfair benefit. A businessperson may be tempted to place his or her personal welfare above the welfare of others or the welfare of the organization. For example, it would be a conflict of interest if a person serving on a company's board pressured the company to buy items only from businesses that the board member owns or controls.

Work as a TEAM

Citizens can play a vital role in society by interacting with economic and social issues. Working as a team, select a business ethics topic that needs attention. Prepare a list of actions that governments, businesses, and consumers might take to address this concern.

CHECKPOINT

List at least four specific business ethics topics.

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Business Insight

Bribery and Gifts

In Saudi Arabia and many countries of the world it is illegal to pay a bribe to a business official or employee; for both the giver (who gives the bribe) and the receiver (who accepts the bribe) and is punishable by imprisonment and a fine.

Bribery can appear in different forms, such as an employee who asks for himself or for others a sum of money or a gift to provide preferential treatment or to bypass some of the irregular practices, which is certainly considered a failure on the part of the employee to perform his duties in a proper and fair manner.

In the field of business, bribery can appear through businessmen paying the bribe in the form of money or gifts to obtain commercial contracts or projects in an unfair manner. Imprisonment and a fine will be the penalty for the persons involved and large fines for the company involved. In some cases there could be a complete exclusion from entering into future contracts and project competitions.

The Oversight and Anti-Corruption Authority, Nazaha, in Saudi Arabia is the body responsible for protecting integrity and combating and assisting in exposing various corruption cases.

In some societies, giving gifts, offering sums of money as a bribe, or inviting businesspeople to a special occasion is common and widely practiced. People in these cultures may consider this as a means of expressing appreciation and strengthening social ties. This makes it difficult to distinguish between the crime of bribery, that could influence the recipient's behavior and understanding, and the real intent behind these behaviors. Bribery causes a lot of damage to economic progress in some countries and weakens the level of integrity in business.

Think Critically

1. How should Saudi businesspeople handle situations where employees expect bribes to be paid as a condition of doing business there?
2. Suppose you work for the government entity that oversees the granting of general investment entrepreneurial licenses. A well-known chain wishing to gain this license and do business in Saudi Arabia sends you vouchers for use in its overseas outlets. What should you do?

LO 5.1.3

CORPORATE GOVERNANCE

Corporate governance is the system of rules, practices, and processes that outlines how companies are directed and controlled. Corporate governance must balance the interests of a company's many stakeholders, or those who have an interest in the corporation. This can include shareholders (both private investors and government investors), boards of directors, management, customers, suppliers, financiers, governments, and the community.

Corporate governance starts with the *board of directors* (sometimes called the board) which is the governing body of a corporation. The board sets the corporation's strategy, hires the CEO, and oversees management. For a public corporation, the board of directors is elected by shareholders. For non-public corporations, board members can be determined by the owners, such as a government or private individuals.

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Good corporate governance policies can have a direct impact on a company's brand image, build trust in stakeholder relations, and increase profitability. Strong corporate governance would include policies for environmental awareness, ethical behavior, accountability, transparency, strong corporate strategy, fair employment and compensation, and risk management.

Good corporate governance firms have an investor relations website that outlines the corporate leadership, board of directors, and corporate governance documents, such as bylaws, stock ownership guidelines, articles of incorporation, and financial reports.

Bad corporate governance can result in short-term profits, but long-term problems and cast doubt on a company's operations and its ultimate profitability. One example is Volkswagen AG's "Dieselgate." Volkswagen deliberately built into its engine emission system a cheat to manipulate pollution test results in America and Europe. When this was revealed, Volkswagen's stock lost almost half its value, or about U.S. $42.5 billion. In addition, Volkswagen has had to record a U.S.$35 billion in losses due to the strategy.

Perceptions over the purpose of corporations are changing. Previously, it was generally accepted that corporations should focus primarily on returns to stockholders. Today, however, their role includes serving an expanded group of stakeholders. That is, delivering value to *customers*, investing in *employees*, dealing fairly and ethically with *suppliers*, supporting *communities*, and generating long-term value for *shareholders*.

Today, good corporate governance needs to go beyond profitability; corporations need to be good corporate citizens, demonstrate environmental awareness, and engage in ethical behavior.

Why must corporations consider the interests of all their stakeholders?

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NET KNOWLEDGE

Visit the Riyadh Chamber of Commerce website. The website provides information on its structure, management, strategies, and other initiatives. Evaluate the Riyadh Chamber of Commerce using the principles of corporate governance. Identify the strengths and or weaknesses of the Chamber's corporate governance practices.

CHECKPOINT

One example of strong corporate governance is establishing a policy for ethical behavior. List at least three others.

5.1 ASSESSMENT

Key Concepts

Determine the best answer.

1. A code of ethics is designed to
  a. meet government regulations
  b. reduce operating costs of a company
  c. provide guidelines for proper behavior
  d. improve employee productivity

2. Which of the following behaviors would be considered unethical?
  a. allow workers to ask questions
  b. allow for disclosure of ethics violations
  c. offer a bribe to government officials
  d. ensure safe working conditions for everyone

3. Corporate governance starts with
  a. employees
  b. managers
  c. company president
  d. board of directors

Make Academic Connections

4. Technology Search the Internet to locate an example of a code of ethics. Describe the benefits of this code of ethics for the organization.

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5. **Communication** Ask your fellow students to identify the behaviors of an ethical business. Create a list of these behaviors and compare them to the ideas in this lesson. Present this to the class.

6. **History** Use the Internet to research the history of a Saudi Arabian corporation. Compare the corporate governance of the corporation in its early history to how the corporate governance is structured today.

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LIFE/WORK SKILLS

COMMUNICATION AND COLLABORATION

Working in Teams

Each day, thousands of workers make decisions and apply business actions in team settings. The ability to work in a team is rated by most employers as one of the most important career skills. The combined skills of the people in a team are greater than that of individuals working alone. When working in a team in class or on the job, consider the following:

- Be prepared for minor conflicts in the first phase of a team project. Differences in opinions will surface. Be ready to adapt to the personalities, behaviors, and actions of others.
- Agree upon guidelines for project goals, meeting times, location, agenda, missed meetings, conflict resolution, and other procedures.
- Define leadership and other roles. Some team members will keep notes and bring needed materials. Others will conduct research or create visuals for a presentation.
- Determine methods for decision making. Usually this will be done based on agreement among team members after discussion of various issues and opposing points of view.
- Keep focused on your goals. Avoid being distracted by minor issues and personality conflicts. Maintain a team-oriented environment by saying "we," "us," or "ours." Avoid using "I," "me," "my," or "mine."
- Be courteous to others. Respect differences in opinions, personalities, and decision-making styles.

Working in teams is something you are likely to do throughout your life. These experiences can be enjoyable and productive. Members of an effective team take responsibility for its work and take pride in its accomplishments. Some team projects will be frustrating. It is important to maintain a positive attitude. Some of the best learning and most valuable experiences result from encounters with others from different backgrounds and with diverse points of view.

Think Critically

1. What do you like about working in teams? Are there any aspects about working in teams that you dislike? Describe them.
2. Describe a problem that might occur when working in teams. Explain how this situation might be resolved.

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5.2 Ethical Behavior in Organizations

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Learning Outcomes

Once you have completed this lesson, you should be able to:

5.2.1 Discuss the factors that affect the level of ethical behavior in organizations.

5.2.2 Explain how ethical decision making can be encouraged.

Key Terms

Contract

Intellectual Property

Organizational Culture

Ethical Dilemma

Whistle-Blowing

Trade Associations

Focus on REAL LIFE

Maha had been working for a medical supply company that was trialling a new drug among a small group of local patients before rolling it out nationally. The company had invested a huge amount of money into developing and marketing the new drug, and there was pressure to meet the launch deadline.

Patients had responded extremely well to the treatment and everything was set for the national launch. However, after visiting one hospital a week before, Maha learned that two patients had recently suffered severe symptoms and wondered whether they could have been unknown side effects of the drug.

She immediately told her manager, who replied: "Forget about it, it's only two cases out of a thousand and there's no proof that the symptoms were related to taking the drug. The clinical trials were fine and no one has complained, so it's not worth delaying the launch over." The manager may have been right, but was it worth the risk to patients? Maha decided to check her company's policy to see what it said about what to do in this situation.

LO 5.2.1

FACTORS AFFECTING ETHICAL BEHAVIOR IN ORGANIZATIONS

The scenario outlined above is not unique. There are a number of factors that influence a businessperson's ethical decisions in a specific business setting. Countries and cultures have differing views of what is both legal and ethical. It is possible for an individual with strong moral values to make ethically questionable decisions, but the results of these decisions are hard to determine.

What are some major issues for anti-corruption organizations?

There are a number of factors that influence the ethical behavior of individuals in an organization. Figure 5-2 outlines influences on ethical behavior within an organization. This includes the larger legal and cultural environments, an organizational culture, and individual factors.

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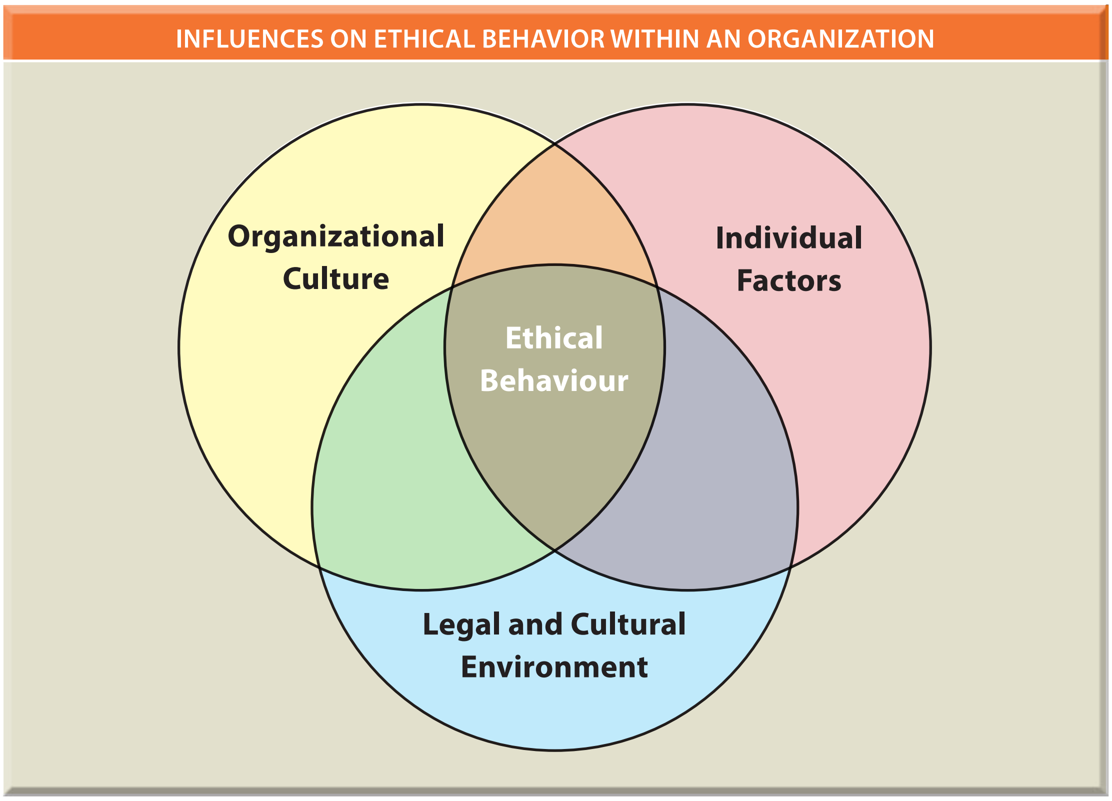

Source: The Saudi Ministry of Commerce

FIGURE 5-2
Provide examples of legal or cultural environmental factors that can influence ethical behavior in an organization.

Legal and Cultural Environment

Ethical behavior is influenced by both the legal and cultural environment of a nation. There are a number of organizations that measure perceived and actual corruption within nations. One of these measures is Transparency International's *Corruption Perceptions Index* (CPI). Government workers may be underpaid and expected to make up for this low pay by accepting bribes. Cultural norms, expected practices, and social contracts can be based on unethical behavior. What can appear to be unethical to outsiders is seen as ethical behavior in these cultures.

This CPI measure is tracked by the government of Saudi Arabia, as a key part of its strategy to protect integrity and combat corruption, following the principles of both Shariah law and international systems.

The ethical behavior within a nation is, in part, the result of the level of enforcement of its laws. Unethical behavior can violate either criminal laws or government regulations. If there is an enforcement mechanism, a business can be held responsible for products that cause harm, unsafe working conditions, or corrupt practices. When there is no enforcement of existing laws, there is more opportunity to engage in unethical behavior. A country can have laws to provide a safe work environment and have standards for buildings, machines, and environmental regulations. If government inspection and regulation is weak, then there is more opportunity for an organization to not provide for safety.

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Contracts are another example of expected government protection. A **contract** is an agreement to exchange goods or services for something of value, usually money. It is a basic part of doing business. Contract enforcement is typically through a nation's court system. The Saudi government has introduced the minimum wage law and established the Ajeer wage protection and employment system, to ensure justice and fairness for workers.

Intellectual property (IP) is creative work or technical knowledge such as patents, copyrights, and trademarks. These are protected by a number of international treaties and agreements. In Saudi Arabia, the Saudi Authority for Intellectual Property (SAIP) regulates, supports, and enforces IP in the Kingdom in accordance with international best practices. It also provides for reporting violations of IP rights. SAIP has a vision to create an integrated body for IP, of global standing, and be a major hub for IP in the MENA region. Saudi Arabia is a member of the World Intellectual Property Organization (WIPO), an agency of the United Nations that supports innovation and creativity by strengthening IP protection. The WIPO administers 26 international treaties protecting IP rights.

Saudi Vision 2030 has set goals for strengthening Saudi Arabia's private sector by reinforcing IP protection and establishing a digital infrastructure that supports entrepreneurs. Young Saudi entrepreneurs have dramatically increased requests for trademarks and patents. SAIP has reported that from 2020 and 2021 submitted patent applications rose by 11%, trademark registrations increased by 26%, registrations of industrial models grew by 48%, and registration of copyright works increased by 57% (source: the official website of the Saudi Authority for Intellectual Property).

Organizational Culture

An **organizational culture** provides the norms of behavior established by leaders that shape employee values, perceptions, and behaviors within an organization. Codes of ethics help to establish ethical organizational cultures, but only if these codes are enforced by leaders. There are numerous examples of unethical behavior in organizations, but in some cases this unethical behavior is part of the organizational culture.

There are a number of conditions that can lead to corrupt organizational cultures. Organizations that set high growth targets where the "ends justify the means" may set sales or revenue targets for employees that can only be reached unethically. Leadership may turn a blind eye on this behavior to reach their own personal or leadership goals. Complex organizational structures can hide behaviors when only results are considered. Short term goals can set additional pressures to achieve results by any means. Over time, organizations can evolve into corrupt cultures where there is plenty of opportunity to engage in unethical behavior.

What are some of the measures being taken to improve IP protection in Saudi Arabia?

Wells Fargo is a large international bank headquartered in the United States. Pressure from top executives on bank managers and bankers led to a practice of cross-selling. This would occur when a bank customer was encouraged to take out credit cards or open a new account, the result of which incurred fees that hadn't been anticipated. These would generate additional revenue for the bank. Bankers were given quotas to reach for cross-selling. Bank employees began to use unethical strategies to gain control over

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customer accounts without their knowledge and open cross-selling products. This resulted in additional fees to customers but allowed managers to reach bank goals. Ultimately, millions of fraudulent accounts were set up by Wells Fargo employees. When this fraud was revealed, over 5,000 employees were fired, and the CEO resigned. Total fines and compensation paid by Wells Fargo was over U.S. $3 billion. Wells Fargo's brand image has still not recovered.

Work as a TEAM

Employees will model the behavior of managers and other employees. If they see unethical behavior, they may think, "If others are doing it, why can't I?" Work as a team to identify the pressures to act unethically and how an employee can avoid unethical behavior in the workplace. Report your recommendations to the class.

The lesson here is that a strong code of ethics with training and enforcement, and the significance management places on these policies, are important. When violations are dealt with consistently and firmly, the opportunity to be unethical is reduced. This all starts with top management. Codes of ethics are not just for lower-level employees; everyone in a business must act ethically.

Individual Factors

Several individual factors influence the level of ethical behavior in an organization, including personal knowledge, values, and goals. How much an individual knows about an issue is one factor. A decision maker with a greater amount of knowledge regarding a situation may take steps to avoid ethical problems, whereas a less informed person may take action unknowingly that could lead to ethical problems.

An individual's moral values and value-related attitudes also clearly influence his or her business behavior and choices. Most organizations strive to hire people with a good character and values that complement their own. Finally, most people join organizations to accomplish personal goals. The types of personal goals an individual aspires to and the manner in which these goals are pursued have a significant impact on that individual's behavior in an organization. Individuals often look for organizational cultures that allow them to reach their personal goals.

NET KNOWLEDGE

The Saudi Arabia Capital Market Authority (CMA) is charged with developing and regulating the Saudi Arabian Capital Market, or financial investment market. The CMA's goals are to create an appropriate investment environment, boost confidence, and reinforce transparency and disclosure standards in all listed companies. This is designed to protect investors and dealers from illegal acts in the investment market. Use the Internet to identify how the CMA supports investor protection. Why do you think it is important for the CMA to provide investor protection?

CHECKPOINT
What are the influences on ethical behavior within an organization?

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LO 5.2.2

ENCOURAGING ETHICAL DECISION MAKING

Maha is faced with an **ethical dilemma**. An ethical dilemma is when there is a conflict between alternative choices, where each decision can violate ethical principles. Maha could follow her manager's advice and ignore the recent trial results, on the basis that only two patients in one thousand had problems, but this would violate her company's code of ethics, the Saudi Arabia *Guide Manual to Business Ethics*, and her own individual ethical views. On the other hand, if she raises the issue of the problems the two patients experienced, then the launch of the new drug will be delayed and patients will be left waiting.

As indicated in this chapter, ethical decision making can be encouraged by:

- businesses, through their codes of ethics and ethical organizational cultures
- governments, by structuring laws and regulations
- business trade associations, which provide frameworks for ethical behavior
- directors and leaders, by modeling ethical behavior and encouraging ethical decision making

Government's and Business' Roles in Encouraging Ethical Behavior

A government can encourage ethical behavior in business by enacting more stringent regulations. Laws are ineffective unless there is an enforcement mechanism. Sometimes even employees who want to act ethically may find it difficult to do so. Unethical practices can become ingrained in an organization. Employees with high personal ethics may then take a controversial step called whistle-blowing. **Whistle-blowing** is informing government officials and related parties about unethical practices within an organization.

In Saudi Arabia, the Oversight and Anti-Corruption Authority (Nazaha) enables the reporting of any administrative or financial corruption. Reporting corruption is not just a right, but an obligation. Whistle-blowers are protected; in addition, if a person witnesses a corruption crime and does not report it, that person can be penalized.

Most company codes of ethics encourage openness. When companies set up anonymous hotlines to handle ethically questionable situations, employees actually may be more likely to engage in whistle-blowing. When firms create an environment that educates employees and nurtures ethical behavior, fewer ethical problems arise and the need for whistle-blowing is greatly reduced.

The Role of Trade Associations in Encouraging Ethics

Trade associations are an association of people or companies in a particular business or trade that promotes the common interests of the members. Trade associations can and often do provide ethical guidelines for their members. These organizations, which operate within particular industries, are in an excellent position to exert pressure on members to stop engaging in questionable business practices that may harm all firms in the industry. In accounting, the Association of International Certified Professional Accountants, which oversees the Certified Public Accountant (CPA) certification, has specific standards for ethical behavior. If a CPA violates the ethical standards, they can lose their CPA license. In Saudi Arabia, the Saudi Organization for Chartered and Professional Accountants (SOCPA) oversees the professional CPA and continues to hold more professional panel discussions to introduce and develop the codes of professional behavior and ethics.

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How are Saudi corporations leading the way to promote ethics?

Directors' and Leaders' Roles in Encouraging Ethical Decision Making

Managers must provide direction by fostering communication, actively modeling behavior, encouraging ethical decision making, and training employees to make ethical decisions. Some companies assign an ethics officer who guides ethical conduct and provides employees with someone to consult if they are not sure of the right thing to do. An ethics officer meets with employees and top management to provide ethical advice, establishes and maintains an anonymous confidential service to answer questions about ethical issues, and takes action on ethics code violations. Saudi Aramco has a Corporate Business Ethics Office which provides consulting to different management levels within the company, performs ethics and integrity culture assessments, supports Aramco's Conflict of Interest and Business Ethics Committee, and participates in developing ethics training programs.

It is difficult for an organization to develop ethics codes, programs, and procedures to deal with all relationships and every situation. For this reason, businesses should set objectives to establish an organizational culture where it is easier to do the right thing than the wrong thing. Supervisors should repress illegal or improper conduct that can potentially endanger or embarrass the company. When an individual is faced with an ethical situation not covered by company policies or procedures the guidelines in Figure 5-3 can help individuals when making ethical decisions. Ethical decisions will always withstand scrutiny.

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GUIDELINES FOR MAKING ETHICAL DECISIONS	
1. Listen and learn	Recognize the problem that confronts your company, team, or unit. Don't argue, criticize, or defend yourself—keep listening and reviewing until you are sure that you understand others.
2. Identify the ethical issues	Examine how co-workers and consumers are affected by the situation or decision at hand. Examine how you feel about the situation, and attempt to understand the viewpoint of those involved in the decision or in the consequences of the decision.
3. Create and analyze options	Try to put aside strong feelings such as anger or a desire for power and prestige and come up with as many alternatives as possible before developing an analysis. Ask everyone involved for ideas about which options offer the best long-term results for you and the company. Then decide which option will increase your self-respect even if, in the long run, things don't work out the way you hope they will.
4. Identify the best option from your point of view	Consider it and test it against some established criteria, such as respect, understanding, caring, fairness, honesty, and openness.
5. Explain your decision and resolve any differences that arise	This may require neutral arbitration from a trusted manager or taking "time out" to reconsider, consult, or exchange written proposals before a decision is reached.

Source: Based on information in Tom Rusk with D. Patrick Miller, "Doing the Right Thing"

FIGURE 5-3
Why should a businessperson apply the guidelines for making ethical decisions when faced with an ethical dilemma?

CHECKPOINT
What are the steps an individual can follow to help make ethical decisions?

5.2 ASSESSMENT

Key Concepts

Determine the best answer.

1. Which of the following are influences of ethical behavior within an organization?
  a. organizational culture
  b. individual factors
  c. legal and cultural environment
  d. all influence ethical behavior within an organization

2. True or False. A contract can only be legally binding if a country's legal system enforces the contract.

3. True or False. An ethical dilemma is when someone sees an unethical act.

4. A ___ is someone who informs government officials and related parties about unethical practices within an organization.
  a. ethicist
  b. manager
  c. whistle-blower
  d. employee

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Make Academic Connections

5. **Research** Use the Internet to view countries on a corruption index. Identify countries that are perceived to be the least corrupt and those that are perceived to be the most corrupt. List factors that could account for the positions of these countries.

6. **Critical Thinking** Explain how you can make ethical decisions by following the Guidelines for Making Ethical Decisions.

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5.3 Social Responsibility

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

5.3.1 Discuss the factors that led to the consumer movement and list some of its outcomes.

5.3.2 Identify the steps a business must take to implement a program of social responsibility.

Key Terms

Consumer Movement

Fraud

Warranty

Corporate Social Responsibility (CSR)

Social Audit

Focus on REAL LIFE

"At the company, we take social responsibility seriously," Sara told an audience of business students.

"As a business owner, I know that this is good for my business, my community, my employees, and for me on a personal level," she continued.

Later in her speech, Sara said, "My company encourages employees to be active in community affairs and to volunteer with a variety of organizations and entities. In some cases, my company provides paid time off for volunteer commitments during business hours. Workers are likely to be more satisfied with their job if they believe their company actively contributes to community life."

LO 5.3.1

THE CONSUMER MOVEMENT AND ITS OUTCOMES

An examination of the history of business will show there has been plenty of opportunities for businesses to act unethically. As has been indicated earlier in this chapter, when there is no legal enforcement to protect consumers there is an opportunity for unethical behavior.

FYI

Early in Islamic society, an office of *hisbah* was set up to control markets and ensure that correct scales and weights were used. Dishonesty in weighing and cheating in business transactions are considered sins in Islam.

While most businesses attempt to treat their customers fairly, some businesses and individuals take advantage of consumers. False claims are sometimes made about products. Prices can be too high. Some products are unsafe both to manufacture and to use. To fight against unfair business practices, consumers have united to demand fair treatment from businesses, giving rise to what is known as the consumer movement. The consumer movement came about due to consumers' increasing awareness of their rights. The Internet has also allowed consumers to compare prices and services globally.

The **consumer movement** is an effort to promote consumer protection through organized social action. In 1985, the United Nations General Assembly endorsed eight consumer rights.

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In some cases, countries have developed associated laws related to these consumer protection rights. Saudi Arabia is working on policies and laws that will align consumer rights in accordance with United Nations guidelines. The Saudi Ministry of Commerce has proposed a series of consumer protection laws as shown in Figure 5-4.

Saudi Arabia has a Consumer Protection Association which aims to enhance and empower Saudi consumers. The Consumer Protection Association supports Saudi governmental entities in supporting consumer rights and interests such as receiving consumer complaints regarding fraud, cheating, counterfeits, manipulation, price exaggeration, and misleading advertisements.

What are some of the benefits corporations gain when they treat consumers with care and fairness?

Fraud and Scams

Most products and services are described in advertisements, on labels, or by a salesperson. Consumers have a right to know what the product or service is and what it will do for them. **Fraud** is any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator causing a loss to the deceived party. If someone knows a product is defective or sells under false pretenses, fraud has occurred. Saudi Arabia has implemented a new Anti-Financial Fraud and Deceit Law to combat financial crime.

As in many countries, consumers in Saudi Arabia can sometimes be victims of online scams, a type of fraud. The Saudi Ministry of Commerce warns shoppers against online scams and recommends consumers should only deal with trusted stores and not to respond to social media that promotes unknown and unreliable foreign websites. Scams should be reported to the Ministry's official website.

SAUDI ARABIA DRAFT LAW ON CONSUMERS BASIC RIGHTS
1. Access to essential products and services.
2. Protection from threats to health and safety.
3. Clear, accurate, and sufficient information necessary for consumers to make an informed decision regarding the product or service they choose (for example, all information must be presented in at least the Arabic language and prices must be expressed in Saudi Riyals inclusive of taxes, fees, and costs).
4. Awareness and education of the economic, social, and environmental impacts of consumer choices.
5. Preservation of consumer privacy and personal data (which is comprehensively addressed by a separate new legislation, the Personal Data Protection Law).
6. Access to dispute settlement means if consumer rights have been breached.
7. Fair compensation for damages resulting from a product or service.
8. Fair compensation for damages resulting from consumer associations.

Source: The Saudi Ministry of Commerce

FIGURE 5-4
Give examples of how your rights as a consumer are respected.

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Warranties

Consumers may also be granted protection through a warranty. A **warranty** is a promise by the manufacturer or dealer, usually in writing, that a product is of a certain quality. The Saudi Ministry of Commerce requires that all electrical appliances, vehicles, and electronics are to have at least a minimum of two years' warranty. As part of its global policy, Apple, Inc. states on its website that consumers are entitled to a free repair of defective goods and replacement of the goods if faulty. These rights expire two years from date of purchase.

Right to Privacy and Data Protection

Saudi Arabia is concerned about an individual's rights to privacy and private data protection. A series of data governance regulations are managed by the Saudi National Data Management Office. Basics of the regulations include the individual's right to be informed of the legal basis for the collection of personal data and how the data will be processed. Individuals also have the right to have access and review personal data and have inaccurate personal data corrected or updated. In addition, they have the right to have personal data destroyed when it is no longer required for the purpose for which it was originally collected.

CHECKPOINT
What are the eight Saudi Draft Laws on Consumers Basic Rights?

LO 5.3.2

IMPLEMENTING A PROGRAM OF SOCIAL RESPONSIBILITY

Social responsibility is the duty to contribute to the well-being of a community. **Corporate Social Responsibility (CSR)** is a management concept where companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. This requires balancing the needs, desires, and demands of a diverse group of stakeholders including investors, employees, customers, government regulators, competitors, communities, and social campaigners.

In a CSR program, a business must weigh these issues, paying particular attention to social concerns such as protection of the environment, inclusion of women in the workplace, employment of physically challenged and older workers, and a healthy and safe work environment. To implement a successful CSR program, a business will need to address four key stages: plan, execution, audit and evaluation.

Plan

Saudi Arabia is one of the leading countries to establish CSR practices in the MENA region. Saudi Vision 2030 has outlined a number of social responsibility goals, to be accomplished through both the public and private sectors. Therefore, businesses in the private sector must plan accordingly if they are to meet the needs of the Saudi Vision 2030 objectives.

The firm must develop a clear, structured, and achievable program to reach this goal. This can be supported by a phased implementation strategy, outlining a timetable for reaching certain targets by specific dates. A director should be appointed to oversee the process and take ownership of the program. Above all, however, the program must have the firm's total commitment, from the initial planning stage onwards, or it will soon falter and become ineffective.

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Execute

FYI

According to the GlobalCom PR Network, the main CSR activities in Saudi Arabia are generating job opportunities for the unemployed (49%), supporting entrepreneurship (47%), and establishing anti-smoking campaigns (46%).

Once the program has been planned and a schedule agreed upon, the next step is its implementation. If adopting a phased approached, the launch of each phase provides an opportunity to review progress, ensure the original targets are still achievable in practice, and refine the plan in light of the experience so far.

As evidence of their commitment to social responsibility, top managers should develop a policy statement that outlines key areas of concern. This statement sets a tone of positive support and will now serve as a guide for other employees as they become involved in the program. Everyone involved in the implementation should have a clear incentive to ensure its success.

Audit

At specified intervals, company managers should prepare a **social audit** for the firm. A social audit is a comprehensive report of what an organization has done and is doing with regard to social issues that affect it. This document provides the information the firm needs to evaluate and revise its social responsibility program. Typical subject areas include human resources, community involvement, the quality and safety of products, business practices, and efforts to reduce pollution and improve the environment.

Evaluation

While a number of benefits exist, socially responsible actions also have various costs. Common benefits of socially responsible business activities include the following:

- Expanded justice for groups of a society
- Enhanced company image
- Improved quality of life in a community and around the world
- Increased awareness of social issues among workers and consumers

However, there are additional costs involved when a business takes socially responsible actions. Money must be spent for new nonpolluting or safer equipment, for building repairs to remove risks, and for social projects sponsored by a company.

It is an extra cost to maintain CSR, but it is a worthy investment as it builds the business's reputation.

Examples of Social Responsibility

Environmental Sustainability Private sector businesses can fulfill their Islamic, human, and moral duties by developing strategies to preserve the environment and natural resources. Businesses can protect the environment by increasing the efficiency of waste management, establishing comprehensive recycling projects, reducing all types of pollution, and reducing the use of water consumption by utilizing treated and renewable water.

Why is solar energy a viable option for energy in Saudi Arabia?

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Providing Equal Opportunities Private sector businesses can provide opportunities for everyone in society—men and women, young and old—so they may contribute to the best of their abilities. Businesses can offer job preparation and training to those unable to find employment to help them join the workforce. Businesses can help Saudi Vision 2030 reach the goal of increasing women's participation in the workforce.

A Renewable Energy Market Saudi Arabia has a strong natural potential for solar and wind power. Businesses can help Saudi Arabia achieve a competitive renewable energy sector to meet an expected three-fold energy consumption increase by 2030.

Being Responsible in Business Saudi Vision 2030 aspires to have businesses that contribute to developing Saudi society and not just be focused on generating profits. Businesses should observe their social responsibilities and contribute to creating a sustainable economy. This includes creating opportunities for young men and women to help them build their professional careers.

Being Responsible to Society Non-profit businesses play an important role in a society. Organizations such as the Red Crescent provide social aid and compassionate work. Saudi Arabia has a goal to increase the total number of non-profit foundations and associations. To achieve this goal, Saudi Arabia will develop regulations to empower non-profit organizations, encourage endowments to sustainably fund the non-profits, and to encourage corporations and trade families to establish non-profit organizations. To help reach the Saudi Vision 2030 goal of one million volunteers per year, private sector businesses can encourage their employees to volunteer to support social causes.

CHECKPOINT ✓
What are the main benefits of social responsibility?

5.3 ASSESSMENT

Key Concepts

Determine the best answer.

1. An effort to promote consumer protection through organized social action is called
   a. business ethics
   b. consumer movement
   c. corporate social responsibility
   d. social competition

2. Which of the following is not a key stage in CSR program implementation?
   a. evaluating/auditing
   b. planning
   c. executing
   d. generalizing

3. True or False. There is a right to privacy and data protection in Saudi Arabia.

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Make Academic Connections

4. **Technology** Conduct research about the most common online scams in Saudi Arabia.

5. **Communication** Conduct a survey of people to obtain their opinions about the Saudi Draft Law on Consumers Basic Rights. Prepare a summary data table with your findings.

6. **Critical Thinking** Describe why socially responsible actions by businesses might have a positive influence on a business's image.

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Chapter 5

Assessment

Review Business Concepts

5.1 Business Ethics

- A socially responsible business engages in ethical business practices. Ethics are principles of morality or rules of conduct. Ethical behavior involves conforming to these rules. Unethical behavior violates them.
- Business ethics are rules about how businesses and their employees should behave in business situations. A code of business ethics is a guide for behavior within an organization.
- A conflict of interest can occur when an action by a company or individual results in an unfair benefit. Corporate governance is the system of rules, practices, and processes that outlines how companies are directed and controlled. Corporate governance must balance the interests of a company's many stakeholders, or those who have an interest in the corporation.

5.2 Ethical Behavior in Organizations

- Ethical behavior within an organization is influenced by the larger national legal and cultural environments, an organizational culture, and individual factors.
- A contract is an agreement to exchange goods or services for something of value, usually money. Contract enforcement is typically through a nation's court system.
- Three types of intellectual property are patents, copyrights, and trademarks.
- An organizational culture provides the norms of behavior established by leaders that shape employee values, perceptions, and behaviors within an organization.
- Individual factors that influence the level of ethical behavior in an organization include personal knowledge, values, and goals.
- An ethical dilemma is when there is a conflict between alternative choices, where each decision can violate ethical principles.
- Whistle-blowing is informing government officials and related parties about unethical practices within an organization.
- Trade associations are an association of people or companies in a particular business or trade that promote the common interests of the members. Trade associations can and often do provide ethical guidelines for their members.

5.3 Social responsibility

- The consumer movement is an effort to protect the rights of consumers through organized social action.
- Fraud is any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator causing a loss to the deceived party.
- A warranty is a promise by the manufacturer or dealer, usually in writing, that a product is of a certain quality.
- Corporate Social Responsibility (CSR) is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.
- Social responsibility refers to the duty of a business to contribute to the well-being of a community. In considering its responsibility to society, a business must weigh the interests and concerns of many groups.
- A social audit is a comprehensive report of what an organization has done and is doing with regard to social issues that affect it. This document provides the information the firm needs to evaluate and revise its social responsibility program.

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Think Critically About Business

1. What are some of the Islamic concepts and pillars that govern business ethics related to labor relations? How can businesses apply those concepts and pillars?

2. A code of ethics is a set of rules for guiding the actions of employees or members of an organization. Name some of the areas businesses cover in their code of ethics.

3. What guidelines should a worker follow to evaluate ethical behavior?

4. Corporate governance must balance the interests of a company's many stakeholders. Identify stakeholder groups for businesses. Why would these stakeholders have an interest in the behavior of the corporation?

5. What are the influences on ethical behavior within an organization? Which of these influences is most important in Saudi Arabia? Explain your answer.

6. Whistle-blowing is informing government officials and related parties about unethical practices within an organization. If you saw wrongdoing in a business, would you be a whistle-blower? Why or why not?

7. Saudi Arabia is working on policies and laws that will align consumer rights in accordance with United Nations guidelines. Why would this be important for Saudi Arabia?

8. Identify some common benefits of socially responsible activities taken by businesses. Why would these benefits outweigh the costs?

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Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
9.	business ethics		**a.** Principles of morality or rules of conduct.
10.	code of ethics		**b.** Rules about how businesses and their employees should behave in business situations.
11.	conflict of interest		**c.** Rules for guiding the actions of employees or members of an organization.
12.	consumer movement		**d.** An action by a company or individual that can result in an unfair benefit.
13.	contract		**e.** The system of rules, practices, and processes that outlines how companies are directed and controlled.
14.	corporate governance		**f.** An agreement to exchange goods or services for something of value, usually money.
15.	corporate social responsibility		**g.** Creative work or technical knowledge such as patents, copyrights, and trademarks.
16.	ethical dilemma		**h.** The norms of behavior established by leaders that shape employee values, perceptions, and behaviors within an organization.
17.	ethics		**i.** A conflict between alternative choices, where each decision can violate ethical principles.
18.	fraud		**j.** Informing government officials and related parties about unethical practices within an organization.
19.	intellectual property		**k.** An association of people or companies in a particular business or trade that promotes the common interests of the members.
20.	organizational culture		**l.** An effort to promote consumer protection through organized social action.
21.	social audit		**m.** Any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator causing a loss to the deceived party.
22.	social responsibility		**n.** A promise by the manufacturer or dealer, usually in writing, that a product is of a certain quality.
23.	trade associations		**o.** A management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.
24.	warranty		**p.** The duty of a business to contribute to the well-being of a community.
25.	whistle-blowing		**q.** A comprehensive report of what an organization has done and is doing with regard to social issues that affect it.

Make Academic Connections

26. Communication Interview at least three people to ask them for a definition and an example of "conflict of interest." Prepare a summary report of two to three paragraphs.

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27. **Math** A Saudi manufacturing company has an annual operating budget of SAR 2,800,000. Each year it budgets for the following expenses: pollution control equipment, SAR 140,000; contributions to community projects, SAR 84,400; employee fitness/sports programs, SAR 28,100.

a. What percentage of the annual budget is allocated to each socially responsible action (pollution control, community projects, fitness/sports)? What is the total spent?

b. What will be the amount budgeted for each expense category next year if there is a 15% increase? What will be the total spent?

28. **Technology** Explain how new technology is making it more difficult to protect IP rights.

29. **Visual Art** Look for examples of trademarks and logos of products from companies based inside and outside of Saudi Arabia. Design a brand name or trademark that might be effective in several countries around the world.

30. **Culture** Explain how history and culture can affect business regulations and business ethics in various countries.

31. **Science** Research a Saudi Arabian patent on a product. Identify the inventor, the year the patent was granted, and the product's function. Prepare a summary report of your findings.

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32. **Speech** Prepare a speech on how good corporate governance policies can have a direct impact on a company's brand image.

33. **Career Planning** Investigate the skills required for a job position as a corporate business ethics officer.

34. **Research** Use the Internet to find examples of businesses that have violated the rights of consumers. Identify how these issues were handled by the business or by government.

Make Your Case

A Saudi Arabian business wants to build a new sports complex near the center of its town for its workers and the people of the town. The complex will cost SAR 5 million.

35. What are the advantages of building this complex for the company, its employees, and the people of the town?

36. Managers of the company want to justify the Riyals spent on this project. How can you assign specific Riyal values to the benefits of this project?

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Global warming is a hot topic. There is strong consensus that the world is getting warmer. At the time of writing, the warmest seven years ever have all been since 2015, with 2016, 2019, and 2020 constituting the top three (source: World Meteorological Organization).

Although the warming trend is well documented, there is considerable debate about the cause. Could it be part of a natural cycle? Or, is it due to human activity? Scientists, environmentalists, and policymakers who believe that human activity is the cause of global warming point to the reduction of carbon emissions as part of the solution.

37. Use the Internet to learn more about global warming and get some different perspectives on the issue. Visit at least one website for each of the following categories: government agency, environmental advocacy organization, large manufacturer, and energy company. In a short report, summarize what you find and offer an opinion about what should be done to combat global warming.

38. Use the Internet to identify actions and strategies that businesses, governments, and individuals could adopt to limit carbon emissions. Report your findings in a table.

39. Choose three actions or strategies that could help reduce carbon emissions and write a short explanation of how they might impact business practices.

Interactions and Connections

40. Interview someone in your community who owns a business or works for a large company or organization. Obtain information about actions that need to be considered when hiring people, designing products, and making other business decisions. Ask them how ethics might affect their daily lives and the lives of others.

41. Based on their answers and what you have learned in this chapter, create a short code of ethics that might be used to guide the decisions made by managers and employees in a company.

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Prepared Speech Event

Some employees in companies around the world are spending part of their workday making personal phone calls and using their work computers for shopping online, playing games, sending personal e-mails, and visiting social networking sites. This unethical behavior results in decreased productivity. Today's focus on technology has many people thinking about personal interests over dedication to their employer. Business leaders are challenged to monitor employees in the workplace for ethical use of their time.

You will prepare a speech that identifies current ethical challenges and offers strategies to encourage respect and ethical conduct in the workplace. Your speech must emphasize the expectation of employee productivity in the workplace and how attention must be shifted from personal interests of employees to customer service and ethical use of work time.

You will have three to five minutes to present your plan to improve ethical conduct in the workplace. Audiovisual equipment and visual aids may be used in this presentation.

Performance Indicators Evaluated

- Define ethical conduct in the workplace.
- Explain the relationship between the employee's commitment to the workplace and productivity.
- Describe strategies to improve ethical conduct in the workplace.
- Explain how ethical standards will be implemented and monitored in the workplace.
- Describe a work environment that requires and rewards sound ethical behavior.

You will be evaluated for your

- Knowledge of the topic
- Organization of the presentation
- Confidence, quality of voice, and eye contact
- Presentation of the plan

Think Critically

1. Why must businesses have standards and rules for employees?
2. Why are many ethical issues associated with technology in the workplace?
3. How can businesses increase employee dedication?
4. What has contributed to the lack of productivity in the workplace?
5. What should happen to employees who have demonstrated unethical behavior in the workplace?

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Part 2

Chapter 6 Management and Leadership

Chapter 7 Entrepreneurship and Small Business Management

Chapter 8 Starting a Small Business

Chapter 9 Business and Technology

Project Preparing a Business Plan

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Life-Span Plan Project: Part 2

Learning Outcomes

Once you have completed this lesson, you should be able to:

Explain what SMART goals are and the importance of making them when creating future plans

Define personal goals and explain how they impact life-span plans

Key Terms

Life-span plan

Personal goals

SMART goals

Focus on REAL LIFE

“What are you up to, Nura?” Fatimah asked her older sister. “Are you still working on your life-span plan?”

“That’s right,” Nura replied. “I’ve decided to improve it by making sure that all the decisions I make are SMART! That way, I have more chance of setting clear and reachable goals and achieving my dreams in life.”

“What do you mean? You never make silly decisions?” said Fatimah.

“Not smart as in clever, but SMART as in well thought out! If my goals are clear and reachable, I am more likely to achieve them. I expect there will be challenges and changes along the way but if I start now, it will prepare me for the journey ahead.”

Fatimah said, “But if your plans change, then what is the point of making them so clear?”

“It’s an invaluable exercise,” replied Nura. “Whatever decisions you make, the skills that you learn now will help you stay organized, make decisions, and find solutions to problems in every area of life!”

LIFE-SPAN PLANNING

In Part One, we were introduced to Nura, who was discussing her **life-span plan** with her younger sister, Fatimah. Nura said to her sister: “Now’s the time to think about what I want to do in the future … I need to set some goals and figure out how I’m going to achieve them.” In Part Two, we will continue to develop the idea of the life-span plan, with a particular focus on SMART goals.

The Life-Span Plan Project will help you see how you can start planning for the rest of your life. Completing the project will help you develop skills you can use to make better decisions throughout your life.

Your Personal Goals

- **Personal goals** are the things that people want most to achieve in their lives.
- Some are short-term goals that they hope to achieve within a year. Others are long-term goals that will take many years to attain.
- Individuals’ goals are likely to involve family, living conditions, education, careers, community, and many other aspects of their lives.
- The goals you set for yourself are based on your personal values, your hopes, and your aspirations.
- If what you learn about setting goals helps you make better educational and career choices, then you may be able to earn a greater income and be more satisfied with your life. This will also allow you to provide a better standard of living for a family.

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A Life-Span Plan

- Think of your life span as a straight line that contains the important events of your life cycle, such as preparing for a career, raising a family, or enjoying retirement.
- When you are young, you will set long-term goals that you want to achieve over a period of years during your life span. As you get older, your priorities are likely to shift, and your goals and aspirations will evolve over time.
- Successful people create long-term plans for how they can achieve their life-span goals. These plans are called life-span plans.
- In Part One, we introduced a life-span timeline for Nura, illustrating the relationship between a life span and events in a person's life cycle. Everyone has a different life-span timeline, as each of our lives takes a different course of events.
- In Part Two, we will focus on creating plans that utilize Specific, Measurable Achievable, Relevant, and Time bound goals to provide direction and maintain focus.

CHECKPOINT
How do personal goals impact your career choice?

FIGURE 1

CREATING SMART GOALS

A SMART Life-Plan For Nura

In Part One's Life-Span Plan Project, we learned how Nura envisages a career in the art world, perhaps working in a museum or gallery. She also considers herself an entrepreneur, and dreams of owning a gallery to showcase and sell the works of local artists.

Since creating her life-span plan, Nura has gained more experience volunteering in a local art museum and networking with Saudi artists from the region. She is determined to set up her own art business and start putting her plans into action. However, she is increasingly interested in how she might utilize technology, such as social media tools, virtual reality exhibitions, and online payment options in her business. She is also passionate about making her business green and sustainable, with minimal impact on the environment. What's more, Nura wants to ensure that she will be able to successfully juggle running her business with raising a family.

What Nura needs now is to create a set of clearly defined goals that will help focus her to achieve her long term aims. These plans must be **SMART** as illustrated in Figure 1. SMART goals are used to ensure valuable resources are not wasted. An example of how personal goals could be formed using the SMART principle is shown below:

Specific

The personal goal must have clear, qualitative outcomes and explain clearly what must be achieved. Specific goals must answer questions like:

- Exactly what needs to be accomplished
- What steps must be completed to achieve the final goal

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A specific personal example could be:

Specific
To gain experience of using *social media tools, virtual reality and online payment* systems by volunteering and working in existing businesses.

Measurable

If the personal goal does not have any measure of how much experience or when the experience must be gained by, it is difficult to track your learning, or know whether you have learned enough.

Nura knows she wants to gain experience of social media, virtual reality and online payment systems, but how much experience does she need? When will she have enough experience.

To make this objective measurable, Nura must use some time- or number based benchmarks so she knows when the goal has been achieved.

Measurable
To gain experience of using social media tools, virtual reality and online payment systems by volunteering and working in existing businesses, creating and managing *two social media, virtual reality-based campaigns on four social media platforms*, setting up the payment system and tracking the financial outcomes from start to finish.

Achievable

When setting goals, it is often possible to set unrealistic and unachievable goals, such as having a 100% success rate, or making $1 million profit in the first year. It is important that the objective is something that actually can be achieved.

When reviewing the goal, you may think that the goal is *too* optimistic and may not even be possible to complete. For example, the museum where Nura is volunteering only uses *two social media platforms* and online payment systems are processed centrally, therefore it may not be possible to achieve the goal.

The goal must therefore be reviewed and amended.

Achievable
To gain experience of using social media tools, virtual reality and online payment systems by volunteering and working in existing businesses, creating and managing two social media, virtual reality-based campaigns on *two* social media platforms, *checking the online payment system reports weekly.*

If it is not possible to amend your goals, it is important that you highlight and communicate any potential issues or stumbling blocks that may stop you from achieving the goal as soon as possible.

Relevant

It is also important to understand and explain clearly why the goal is being set. This helps to focus the goal and make sure the goal helps to achieve a bigger objective.

Nura knows that social media campaigns are very important in modern day sales channels and as a small business, she would be unable to pay someone else to create these campaigns for her.

Relevant
To gain experience of using social media tools, virtual reality and online payment systems by volunteering and working in existing businesses, creating and managing two social media, virtual reality-based campaigns on *two* social media platforms, *checking the online payment system reports weekly.* This knowledge will help to attract target customers in a cost effective manner and avoid negative cashflow.

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Timely

When goals are set, there must be an end date or a specific time period. If there is no time period then most goals could eventually be achieved, but it might be too late. What is the time period allowed for the project? When must the project be completed by?

Time-based
To gain *two years*' experience of using social media tools, virtual reality and online payment systems by volunteering and working in existing businesses, creating and managing two social media, virtual reality-based campaigns on two social media platforms by July 2025, checking the online payment system reports weekly and being able to complete sales reports by April 2025. This knowledge will help to attract target customers in a cost-effective manner and avoid negative cashflow.

Once all of these dates have been added, the SMART goal is complete.

A well written life-span plan, with clear and SMART goals will help Nura to establish her business and launch her career. SMART goals are used to help guide the goal setting process. This gives a sense of direction and allows resources to be planned and allocated to the project which will help reach the final goal.

However, a poorly written plan with vague or poorly thought out goals may cause her to have ineffective decision-making processes which means she may not achieve her overall ambitions. If Nura does not follow the SMART process, she may not get the relevant depth of knowledge of social media campaign planning, or she may still be learning about social media in ten years time. By setting a goal which is not SMART, Nura, may focus on incorrect priorities or may find out that she does not have the necessary experience to start her own business.

Nura realizes that writing her life-span plan will involve careful planning and may have some trade-offs. By continuing to volunteer at the museum instead of starting her own business, Nura may not begin earning an income for two years, which could impact on her quality of life. All decisions have consequences and Nura may well have to choose between two positive options or even choose the least worst option.

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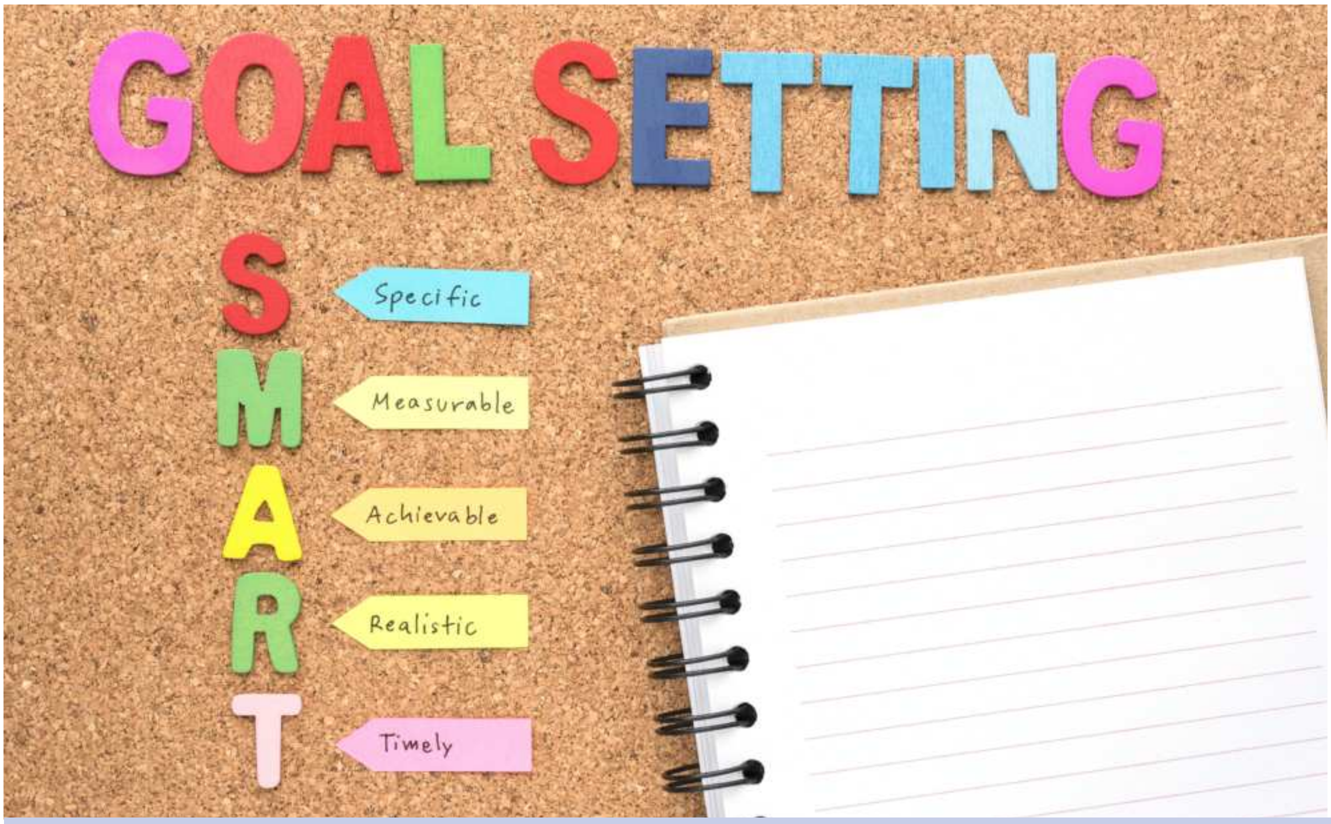

Why do you think it is important to write a life-span plan with clear SMART goals?

Your own SMART Life-Span Plan

Throughout the book, look for the Life-Span Plan icon, which provides questions and guidance on topics related to each chapter that will help to prepare you for life. When you consider the questions and guidance when planning your life-span, you must carefully consider the SMART principles. This project is designed to stimulate class discussion and to encourage you to think critically, hone your organization skills, and nurture a creative outlook.

To contribute to this project, you should reflect on what you've learned throughout this course. You will study a variety of topics and finish many activities that you can use to help you complete the project assignments. Preparing SMART targets will require you to consider all of your values and goals, not just those that are related to one particular choice. Whether or not you ultimately decide to put your SMART goals into action once you have left school and college, the skills attained will set you up as you enter the business environment.

CHECKPOINT
How will setting SMART goals help you focus or become more disciplined when working towards future objectives?

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Chapter 6

Management and Leadership

6.1 Management Functions and Styles

6.2 Managerial Leadership

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PLANNING A CAREER IN . . .
MANAGEMENT

The career choice you make will likely be driven by your interests and abilities. People who are focussed on a specific field such as law, art, nursing, or biomedical engineering may or may not have aspirations to become managers. However, many people start their business careers with the goal of becoming a manager some day. They view the chance to demonstrate success as a manager and contribute to major decisions as a challenging goal.

Managers are an important key to the success of a company. Management opportunities exist in all companies and in every part of a business. Whether your interests are in finance, marketing, information management, engineering, or human resources, you can become a manager.

You can take the first step by accepting a role such as a team leader. You can then advance to a position as a supervisor or assistant manager after only a few years of experience. With additional experience, and perhaps some additional education, you can become a mid- or top-level manager. Your career advancement will be based on how well you perform management duties and your contribution to the overall success of the business.

Related Job Titles

- Administrator
- Assistant Manager
- Coordinator
- Department Head
- Project Manager
- Supervisor

Analyze Career Opportunities in . . .
MANAGEMENT

Use library and Internet resources to learn more about careers in management. Choose one of the job titles listed in the box and answer the following questions.

1. What is the employment outlook for careers in this field?
2. Is this a career that interests you? Describe a few things you could do to learn more about this career.

What it's like to work as a . . . Supervisor

Although Ahmed enjoys his job as the supervisor of a production line at a large manufacturing company, today will be challenging. This morning, Ahmed needs to review the current production workflow process to devise a more efficient strategy for organizing the team to increase productivity. This afternoon he is meeting with his team to talk about overtime and budgets.

Ahmed needs to let his work group know that they will have to work at least 10 hours of overtime each week for the next two months to meet their quota. Some team members will be happy about the extra money but others will complain about giving up their free time.

He also needs to talk to his group about the budget. He doesn't have full authority over the budget, but his manager has asked him to help find ways to reduce expenses.

Finally, Ahmed has to complete one of his least favorite duties—terminating an employee's contract. A new employee has not been able to meet the job expectations and has to be let go. Ahmed has a meeting scheduled with the employee to break the news.

What about you? What would you find the most and least enjoyable about Ahmed's work?

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6.1 Management Functions and Styles

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

6.1.1 Define the five functions of management.

6.1.2 Describe the levels of management in businesses and organizations.

6.1.3 Discuss how and when to use the two management styles.

Key Terms

Management
Planning
Organizing
Staffing
Directing
Controlling
Management Style

Focus on REAL LIFE

Amir and Khalaf are in their final year of school and have begun to plan their future careers. "I'm joining the family business," explains Khalaf. "One day, when my dad retires, I'll get to be the boss. I'll get paid lots of money and I can't wait to tell everybody what to do!"

"It's not that simple, Khalaf," laughs Amir. "Yes, it might be well paid and give you some power, but being the one in charge comes with great responsibility, too. You'll have to make some really tough decisions, and it'll be your fault whenever they go wrong!"

"I'm happy to make the big decisions," replies Khalaf. "In fact, I've got some great ideas to improve the business."

"Well, good luck!" Amir replies. "I'm sure you'll do well. But just remember, you'll need more than great ideas to run a company. You will need to inspire your team and command their respect in order to make those ideas become a reality. You have to listen, as well as instruct."

LO 6.1.1

ROLE AND WORK OF MANAGERS

Managers are responsible for the success or failure of businesses and organizations. Managers receive recognition and other rewards when a business meets its goals. They also are held accountable when goals are not met. People who want to experience the risks and rewards of leading a business often become managers.

Who Is a Manager?

Management is the process of accomplishing the goals of an organization through the effective use of people and other resources. Managers make things happen in businesses. The entrepreneur who develops the idea for a new business is a manager. The top executive of a multi-million-Riyal business who must make the final decision on a plan to enter a new international market is a manager. Supervisors with responsibility for the work of a small number of employees are managers, as are vice presidents with hundreds of employees reporting to them.

What Do Managers Do?

Every manager has specific job duties, but all managers must complete similar activities no matter what the size or type of organization. Managers' work can be organized within five functions: planning, organizing, staffing, implementing, and controlling (see Figure 6-1).

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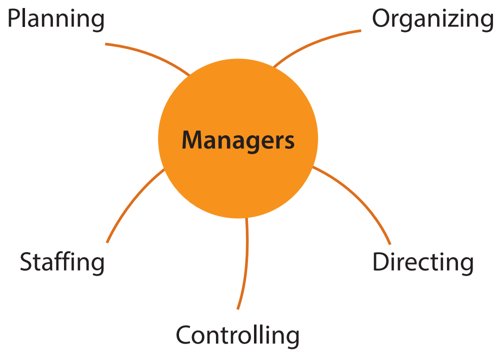
- **Planning** involves analyzing information, setting goals, and making decisions about what needs to be done.
- **Organizing** means identifying and arranging the work and resources needed to achieve the goals that have been set.
- **Staffing** includes all of the activities involved in obtaining, preparing, and compensating the people who work for a business.
- **Directing** is the effort to direct and lead people to accomplish the planned work of the organization.
- **Controlling** determines to what extent the business is accomplishing the goals it set out to reach in the planning stage.



Do managers fulfill any other functions in a business?

FIGURE 6-1
Key Functions of a Manager

Large businesses and organizations have many managers. Responsibilities for specific management functions are assigned to each manager. In a new small business, the owner usually is responsible for all of the management functions. As the business grows, other employees will be moved into management positions.

Managing a business or even a part of a business can be a very complex process. Managers must make decisions, solve problems, respond to competition, and develop new strategies. Decisions made to complete one management function often affect other functions. The efforts of each manager impact the work of others. Effective managers motivate employees to do their best work. They also use the money and other resources of the business wisely. Successful businesses must have managers who are able to complete each of the management functions well.

Work as a TEAM

Your class is responsible for organizing a school open day. Your team has responsibility for managing that project. For each of the five management functions, identify two or three management activities that your team must complete in order for the project to be successful.

CHECKPOINT
What are the five management functions?

LO 6.1.2

MANAGEMENT LEVELS

Unless a business is very small, there will be several managers with responsibilities for the success of the business. Every manager devotes some time to each of the management functions and has authority over other people and their work. Not every manager gives the same amount of attention and time to each of the functions. Most larger organizations have three levels of managers—executives, middle managers, and supervisors (see Figure 6-2).

Think of a local business. What levels of management do you think it has?

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Can you think of any other forms of management structure?

FIGURE 6-2
The Three Levels of Management

Top Management

Executives are top-level managers with responsibilities for the direction and success of the entire business. They set long-term direction and plans. They are held accountable for the profitability and success of the business. Job titles of executives include chief executive officer, president, chief operating officer, and vice president.

Executives spend most of their time on planning and controlling activities. They study the economy and competition. They approve all major business decisions and expenditures. Executives are responsible for the work of all other managers and employees.

FYI More business means more jobs and more managers! According to Monsha'at, the Cultural Development Fund could lead to 70,000 new jobs in Saudi Arabia's culture, entertainment and sports sector. This is creating a huge opportunity for managers at all levels, whether executives, middle management or supervisors, to lead and administer a range of activities and responsibilities.

Middle Management

Middle managers are specialists with responsibilities for specific parts of a company's operations. Examples of middle management jobs are marketing manager, information technology manager, customer service manager, operations manager, and human resources manager. Middle managers work with the company's business plan once it has been approved by executives and develop specific plans for their part of the business. They must coordinate their work with other managers. Much of their time is devoted to the organizing, staffing, and directing functions.

Supervisors

Supervisors are the first level of management in a business. They are responsible for the day-to-day work of a small group of employees. They help employees plan their work. Supervisors also monitor employee activities and results. They make sure that needed resources are available and used wisely. Supervisors must evaluate the quality of the work of their employees and help to solve problems that occur in their area. Supervisors spend most of their time implementing the plans of executives and middle managers. They may have non-management duties in addition to their management work.

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Personal Responsibility

Each of the three management levels described above carries some degree of authority within a business. However, while many employees may not have this authority, each and every employee has a personal responsibility to carry out their specific role effectively. Taking ownership of one's position is an excellent first step towards advancing a career. Employees who demonstrate personal responsibility are often rewarded with wider responsibilities within the business, such as overseeing a particular task or training newer employees. Gaining this valuable experience might help the employee move into a management position in future.

CHECKPOINT
What are the differences among the three levels of management?

LO 6.1.3

MANAGEMENT STYLES

Managing a group of people can be a difficult job. Managers must encourage people with different backgrounds, personalities, and experience to work well together. Have you been a part of a community or school group? If so, you can remember how hard it was at first to coordinate the talents of each group member so the team or group performed well.

Managers approach the task of directing a group in different ways based on their management style. **Management style** is the way a manager works with and involves employees. Two very different styles often used by managers are authoritative management and delegative management.

Figure 6-3 describes situations where each style will be more effective. Experienced and effective managers can change their management style. It should be based on the urgency of the work to be done and the confidence the manager has in the employees.

Authoritative Management Sometimes managers are faced with a crisis, and they don't have time to let the group decide how to complete the task. In other situations, a manager may be working with a group of new employees or may have work in which the members have no previous experience. In those situations, the manager should use an authoritative approach. *The authoritative management approach* is a style in which the manager is more directive and controlling. The manager will make the major decisions and stay in close contact with employees while they work to make sure the work is done well.

Delegative Management When a group of employees is experienced and works well together, a manager does not have to be as directive and controlling. If there is enough time and experience to bring a team together to help plan a work assignment, team members will often prefer being involved in the decision-making process. These are examples of the use of a delegative approach. *The delegative management approach* is a style in which managers are more collaborative and involve employees in decision making. A manager using a delegative approach expects employees to work well without direct supervision and will seek their input on important decisions.

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As an employee, which management style would you prefer from your supervisor?

CHOOSING A MANAGEMENT STYLE	
A MANAGER SHOULD USE AN AUTHORITATIVE APPROACH WHEN	**A MANAGER SHOULD USE A DELEGATIVE APPROACH WHEN**
• Working with part-time or temporary employees	• Employees are skilled and experienced
• Working with employees who lack motivation for a new task	• The work is routine with few new challenges
• Working under tight time pressures	• Employees are doing work they enjoy
• Assigning a new task for which employees are not experienced	• The manager wants to improve group relationships
• Employees prefer not to be involved in decision making	• Employees are willing to take responsibility for planning their work

Why is an authoritative approach appropriate when assigning a new task that must be completed quickly?

FIGURE 6-3
Alternative Approaches to Management

Mixed Management Which of the two management styles would you prefer if you were an employee? If you were a manager, which of the styles would you use? Everyone will not answer these two questions the same way. In the past, many managers believed they needed to take an authoritative approach to management. They believed they needed to be directive and controlling in order to make sure that work was completed. Some employees became frustrated when they felt their manager did not trust them. Some employees prefer that the manager make day-to-day decisions. Other employees are not experienced enough to work without close supervision. As a result, effective managers are prepared to use both styles. The combined use of tactical and strategic management styles is known as *mixed management*.

CHECKPOINT
How is authoritative management different from delegative management?

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6.1 ASSESSMENT

Key Concepts

Determine the best answer.

1. True or False. An entrepreneur who starts a new business is not considered to be a manager.
2. Which of the following is not one of the five functions of management?
   - **a.** planning
   - **b.** directing
   - **c.** producing
   - **d.** controlling
3. Which level of management spends most of its time completing planning and controlling activities?
   - **a.** top management
   - **b.** middle management
   - **c.** supervisors
   - **d.** team management
4. True or False. Effective managers should use authoritative management rather than delegative management.

Make Academic Connections

5. **Research** Use the Internet or library to gather information on the top executive of a large Saudi corporation. Prepare a written report on the manager's role, identifying the important responsibilities of the executive in leading the company.

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6. **Careers** Use an employment website to identify job listings for a top management position, a middle management position, and a supervisor position. Develop a table that lists the main duties the person in each position needs to perform. Classify those duties within the five management functions.

7. **Critical Thinking** Imagine you are managing a team of students that is organizing a community event to celebrate the class's achievements. Suggest a situation that could occur for which an authoritative management approach would be most appropriate and another situation when a delegative approach would be most appropriate. Discuss the situations with other students and see whether they agree with your decisions.

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6.2 Managerial Leadership

Link to digital lesson

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Learning Outcomes

Once you have completed this lesson, you should be able to:

6.2.1 Describe the need for leadership skills and the characteristics of an effective leader.

6.2.2 Identify the human relations skills needed by managers and leaders.

6.2.3 Recognize four types of leadership influence.

Key Terms

Leadership
Human Relations
Influence
Informal Influence
Formal Influence

Focus on REAL LIFE

The committee for a business leadership award in Dammam is meeting to identify possible nominees for the award.

Asma offered the first suggestion, "We should find out which businesses showed the greatest growth and profits during the past year and each company's top manager should be nominated."

"I think there is more to leadership than being the top manager of a profitable company. There are other things that demonstrate outstanding leadership," Abdullah offered.

"We shouldn't limit it to the top manager. I believe the managers who work with employees every day are at least as responsible for a company's success as the top manager," Ali pointed out.

Najma asked, "Does the award have to go to a manager? Many employees provide outstanding leadership within their organizations."

Asma looked around the table and said, "Before we go any further, it looks like we need to agree on what leadership is."

LO 6.2.1

WHAT IS LEADERSHIP?

A business uses many resources to accomplish its work and make a profit. Those resources include buildings, equipment, money, materials, supplies, and people. The ability to manage resources, including people, is critical to the success of any business. Some managers are effective at managing other resources but not as good at managing people. Because employees are so important, managers who can effectively manage people are in high demand.

Think of an organization or group in which you have been involved. Do you feel there was effective leadership? Why or why not?

Need for Leadership

Ideas about the effective management of people have changed around the world in recent years. In the past, it was acceptable for managers to decide what needed to be done and how it was to be done without consulting the people who would be asked to do the work. Employees were expected to do what they were told. Although workers might have done what was asked of them, they might not have been doing their best.

Most businesses cannot afford to have employees who are not doing their best. The cost of hiring, training, and paying employees is usually one of the largest expenses for a business. Employees who

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> **Life-Span Plan**
>
> Identify and evaluate your own leadership abilities. List things you have done and activities you have completed that you believe contribute to your leadership skills. Explain how your leadership skills may affect the life-span goals you set for yourself. Identify possible leadership roles in your school and community that can help you achieve your life-span goals.

do not feel their contributions are valued may not perform well. They might not produce the quantity or quality of work that is required. Other employees who do not feel appreciated might look for other jobs. Companies pay a high cost for these kinds of problems.

Today, managers are expected to do more than just give orders. They are expected to find ways to meet employee needs as well as business needs. Managers must be effective leaders.

Leadership is the ability to motivate individuals and groups to accomplish important goals. When a manager can get individual employees and groups to work well together to accomplish objectives, she or he is an effective leader.

A range of organizations and initiatives have been established in Saudi Arabia to promote strong leadership and to support the goals of Saudi Vision 2030. These include:

- *The Misk Foundation* has established 2030 Leaders, a leadership development program designed to identify and nurture the inspiring individuals who will help to implement Saudi Vision 2030. Applicants must be Saudi nationals with over ten years' experience in the public or private sector, five years' senior leadership experience, and fluent in English (https://misk.org.sa/leaders2030/).
- *The Leaders Development Institute* is an organization with a similar aim, focussed specifically in the sports sector. LDI is using initiatives including educational and training programs to create champions, as part of Saudi Arabia's transformation towards becoming a top sporting nation (https://ldi.sa/en).
- *The King Abdulaziz Quality Award* promotes quality of performance in business. The award "is a way to achieve excellence in business by providing an integrated structure to coordinate all performance improvement and management activities" (https://kaqa.org.sa/en/Pages/default.aspx).

Leadership Characteristics

Leadership is much more than just being friendly with employees. It takes skill to get people with different characteristics, needs, and interests to work well together and do the work needed by the business. The characteristics of effective leaders are listed and described in Figure 6-4.

There is an expression that states: "Leaders are born and not made." However, most leaders will say that they did not always have the characteristics needed for success. Rather, they worked hard over many years to develop them.

The following section provides practical advice for honing leadership skills.

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CHARACTERISTICS OF EFFECTIVE LEADERS	
CHARACTERISTIC	**DESCRIPTION**
Understanding	Respecting the feelings and needs of the people they work with.
Initiative	Having the ambition and motivation to get work done without being asked.
Dependability	Following through on commitments.
Judgment	Making decisions carefully.
Objectivity	Looking at all sides of an issue before making a decision.
Confidence	Being willing to make decisions and take responsibility for the results.
Stability	Not being too emotional or unpredictable.
Cooperation	Working well with others, recognizing others' strengths, and helping to develop effective group relationships.
Honesty	Being honest and sincere in decision making and treatment of others.
Courage	Willing to take reasonable risks and make unpopular decisions.
Communication	Able to listen, speak, and write effectively.
Intelligence	Having the knowledge and understanding needed to perform well.

Identify people who you believe have most of these leadership characteristics. How do they demonstrate their leadership?

FIGURE 6-4
Leadership Characteristics

Preparing to Be a Leader

You will have many opportunities to be a leader even if you are not a manager. Don't wait until you find yourself in a leadership role to develop leadership skills. There are several ways you can develop them right now, as shown in Figure 6-5, including:

- *Study leadership*. Books, videos, and blogs on the subject of leadership and leadership skills can help you understand what it takes to be a leader. You can also take courses to develop specific leadership skills.
- *Participate in organizations and activities*. Clubs, teams, and organizations need leaders and offer a variety of opportunities to develop leadership skills.
- *Practice leadership at work*. If you have a part-time job, you can develop leadership skills as you help customers, complete work assignments, take initiative to solve problems, and demonstrate dependability and honesty.
- *Observe leaders*. Every day you can observe people in leadership positions in your school and community. You also can see and read reports about people in leadership positions in business and government.
- *Work with a mentor*. An older sibling, a trusted adult, or a teacher may be willing to help you learn more about leadership skills and offer guidance and feedback on your progress.
- *Do a self-analysis and ask for feedback*. Find opportunities to demonstrate leadership characteristics. Review the results to identify what you did well and what you can improve. Ask others for constructive feedback.

In what other ways can you develop useful leadership qualities?

FIGURE 6-5
Preparing to be a Leader

CHECKPOINT
What are the key characteristics of effective leaders?

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LO 6.2.2

IMPORTANCE OF HUMAN RELATIONS

Managers and leaders must be able to work well with other people. Most managers spend a majority of their time interacting with people. They work with employees, customers, people from other businesses, and other managers in their own organizations. The ability to get along with other people largely determines whether a manager is successful or not. **Human relations** is the way people get along with each other.

Which leadership qualities do you possess? Which qualities do you most need to develop? Are there others that you think you could develop?

Human Relations Skills

Effective managers and leaders must develop and maintain effective relationships with all of the people with whom they work. In addition, they must help employees develop effective human relations skills. The important human relations skills needed by leaders and managers are (1) self-understanding, (2) understanding others, (3) communication, (4) team building, and (5) developing job satisfaction.

Self-Understanding To be able to meet the expectations of others, leaders must first understand their own strengths and weaknesses. A manager cannot always do exactly what employees would prefer or make decisions with which every employee agrees. In addition, a manager cannot be viewed as either unpredictable or unfair. To gain a better understanding of yourself, you can study how you get along with others. Try to recognize the ways you communicate and work with others individually and in groups. It is important to recognize how you make decisions. You must learn which decisions were effective and which were not so you can improve your decision-making ability over time.

Understanding Others Leaders recognize that people they work with often are more alike than different. Recognizing those similarities will help develop a stronger team. Differences can also improve a work team. If everyone thought and acted the same, there would seldom be new ideas or anyone to question a decision in order to improve it. An effective leader gets to know each person's skills and abilities as well as strengths and weaknesses. The leader will not treat everyone alike, but will attempt to involve each person in the way that is most beneficial to the business and that employee.

Work as a TEAM

List the five human relations skills and rank them 1–5 in the order you believe is most important to effective leadership. Now compare your rankings with those of your team members. As a team, agree on a final ranking of the skills. When you are finished, discuss whether the process used to agree on rankings demonstrated effective human relations skills among team members or not.

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Communication Communication is an essential part of every business. Managers must have effective communication skills. Communication can be classified as:

What might happen if a business loses communications, computer, and Internet services for a day?

- *Formal or informal* Formal communications methods are the established and approved ways for information to move between managers, employees, customers, and others in the business. Informal communications are commonly used but unofficial ways that information moves in an organization.
- *Internal or external* Internal communications occur between managers, employees, and work groups. External communications occur between people inside the organization and people outside the organization such as customers, suppliers, and other businesses. Use of a letterhead on external business communication helps create a professional image. It should contain the company name and contact information. Business cards for employees who have external contacts should contain the business name as well as the employee's name, title, and contact information.
- *Vertical or horizontal* Vertical communications move up or down in an organization between management and employees. Horizontal communications move across the organization at the same level—employee to employee or manager to manager.
- *Oral or written* Oral communications are spoken directly or using technology. Written communications include notes, letters, reports, and text or graphics.

Managers need to recognize and effectively use many methods of communication. The message must include specific words that are understandable and meaningful to the people receiving the communications. An effective communicator must be a good listener as well as skilled at providing information. Listening helps managers understand employees and demonstrate respect for their ideas.

Team Building Businesses are organized into groups and teams. The combined skills of the people in an effective team are greater than those of individuals working alone. On the other hand, if there are problems in the team and members cannot get along, the team will not be effective. Managers and leaders need team-building skills to help people understand each other and their responsibilities. A leader must be able to identify problems developing within the group and help resolve them quickly.

Developing Job Satisfaction Most people are more satisfied than dissatisfied with their work when they have jobs that use their skills and interests. Managers can influence how employees feel about their jobs on a daily basis. Sources of dissatisfaction include assignments employees do not like, difficult working conditions, ineffective communication, and lack of recognition or adequate rewards. A small concern that is unresolved can lead to long-term dissatisfaction. Employees appreciate it when a manager pays attention to the needs and concerns of individual employees, even if problems cannot be immediately resolved.

CHECKPOINT
Why do managers and leaders need effective human relations skills?

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Business Insight

Responsibilities of the Next Generation's Leaders

At the beginning of this lesson, we introduced Khalaf, who hopes one day to take over the family business and "be the boss." The following preparations should be taken by all prospective future leaders of the family enterprise who expect to advance to executive positions.

1. *Be open to communication*. The succeeding generation should understand the values that led to the creation and growth of the family enterprise and to its current mission. If they believe change is necessary, their actions should result from conscious decisions. They should seek to be fully informed about the history and direction of the company.

2. *Develop a personal action plan*. At this stage, prospective successors should seriously assess whether they have addressed the following questions: Who am I? What are my core values? What are the most important areas of my personal and professional life that I should work on?

3. *Implement the personal action plan*. This involves pursuing relevant education, training, and experience. Actions should lead to the establishment of personal credibility and marketability. The younger generation should not be joining the family business simply because they lack alternatives.

4. *Prepare for ownership*. Future leaders need to develop basic management skills, such as the ability to comprehend financial statements and to effectively supervise employees. They must grasp the role of a board of directors in terms of its relationship to the management team of the firm. And they need to understand the relationship between the business and the family.

5. *Design life plans*. Life plans are for both the individual and the business. What should the résumé of the family company CEO look like in 5 or 10 years? A key responsibility of members of the younger generation is to keep in mind that they are not entitled to a leadership position. Such positions need to be earned.

Think Critically

1. Do all of the preparations suggested above only apply to succession in family businesses? Give reasons for your answer.
2. A core objective of Saudi Vision 2030 is to inspire and educate the leaders of tomorrow. Research and describe other ways in which you can prepare to become an effective manager or leader.

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LO 6.2.3

INFLUENCING PEOPLE

Have you been a part of a group that often disagrees on how things should be done and takes a long time making decisions? If the group is not working well, leaders may complain and criticize group members. Others may give up on the group and attempt to do the work themselves. Neither of those responses improves the group's effectiveness. Effective leaders must be able to influence team members and others in positive ways. **Influence** enables a person to affect the actions of others.

Kinds of Influence

There are several kinds of influence a leader may be able to use (see Figure 6-6).

Position influence	Reward influence	Expert influence	Identity influence
Use of authority	Use of praise / criticism, and rewards	Use of expertise and experience	Use of trust and respect

Which kinds of influence do you think you could utilize as a leader?

FIGURE 6-6

Types of Leadership Influence

Position influence is the ability to get others to accomplish tasks because of the position the leader holds. If the leader is a manager with authority over an employee, it is likely that the employee will feel obligated to respond to the leader's requests.

Reward influence results from the leader's ability to give or withhold rewards. Rewards may be monetary, such as wages or job benefits. Rewards can also be non-monetary, such as recognition and praise. Rewards are usually positive. Negative rewards include requiring people to work overtime on short notice or criticizing rather than praising employees.

Expert influence exists when group members recognize and appreciate a leader's expertise in a specific area. For example, a group of inexperienced sales representatives with a manager who has years of successful selling experience will likely look to the manager for guidance.

Identity influence stems from the personal trust and respect members have for the leader. If the leader is well liked and appears to have the best interests of the group in mind, members are likely to support the leader.

The influence of leaders is not always positive. It may not be effective for a long period. If a manager is not viewed as an expert and is not well liked, he or she will have to rely on position and reward influence. It is not easy to continue to get people to do things for you just because you are their manager. They will probably do just enough to get by, get a reward, or avoid punishment. Effective leaders work to develop expert and identity influence to gain the respect and support of the group.

Think of a manager or teacher you've enjoyed working with. What characteristics made it easy to follow his or her lead?

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Formal and Informal Influence

Groups can be affected by both formal and informal influence. It depends on the person's role within the organization. Managers have formal influence. Others can have informal influence as a result of their personal characteristics rather than their role in the organization.

What happens when your teacher assigns a group project and the team members get together for the first time? Often, one or two people emerge as leaders to help get the group focussed and organized using informal influence. **Informal influence** is power resulting from the personal characteristics of a leader rather than the formal structure of an organization. Consider another situation where members of a council or organization elect leaders. **Formal influence** is power based on a leader's position within the formal structure of an organization.

Often in organizations, both formal and informal influence will operate at the same time. One person will be the manager and have formal influence. There may be a well-liked and respected employee in the group who will have informal influence. If there is a conflict between the formal and informal influence, the group will probably not work effectively. Group members will have difficulty deciding whose influence to follow. Effective managers recognize informal influence and work closely with the informal leaders to gain their support and avoid conflicts.

CHECKPOINT ✓
What is the difference between formal and informal influence?

6.2 ASSESSMENT

Key Concepts

Determine the best answer.

1. The ability to motivate individuals and groups to accomplish important goals is
   - **a.** influence
   - **b.** power
   - **c.** management
   - **d.** leadership
2. True or False. Research has proven that effective leaders are born and not made.
3. The way people get along with each other is known as
   - **a.** human relations
   - **b.** influence
   - **c.** management style
   - **d.** communications
4. A person who is not a manager but is still able to get a group focussed and organized is using
   - **a.** authoritative management
   - **b.** delegative management
   - **c.** formal influence
   - **d.** informal influence

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Make Academic Connections

5. **Technology** Virtual teams complete projects by communicating using technology rather than meeting face to face. Complete Internet research on virtual teams. Prepare a report that describes a business project completed by a virtual team. Discuss how technology was used to support communication among team members and achieve successful completion of the project.

6. **Communication** You are the supervisor of a new employee who is having difficulty completing some tasks. You believe the new employee may be reluctant to ask questions of experienced employees. You encourage your employees to help each other when asked. You want to meet with the new employee to discuss the situation and want the discussion to be positive and result in improved performance. Role-play the discussion with another student using effective oral communication. Use the space below to jot down your notes.

7. **Math** A survey of one company's employees asked them to identify which type of influence their managers used most often. Seven hundred employees responded with the following results: Position influence, 305 responses; reward influence, 80 responses; expert influence, 120 responses; identity influence, 195 responses. Prepare a chart that illustrates the percentage of managers using each of the types of influence most frequently.

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MANAGEMENT AND LEADERSHIP IN DELIVERING SAUDI VISION 2030

The notion of leadership is often associated with courageous individuals, who make tough decisions and inspire others. Yet, as Saudi Vision 2030 highlights, leadership can also be demonstrated by collective organizations, and even entire nations comprising millions of citizens! King Salman Bin Abdulaziz Al-Saud has said, "My primary goal is to be an exemplary and leading nation in all aspects, and I will work with you in achieving this endeavour."

While leadership ultimately comes from the top down, the King's message reinforces the idea of a collective effort and responsibility to show leadership qualities as a nation. Elsewhere, Saudi Vision 2030 states that: "our real wealth lies in the ambition of our people and the potential of our younger generation." Characteristics of leadership can be applied at every level of command, through shared ambitions and motivating others to work together to achieve the same aims.

As this chapter highlights, leadership and management are connected functions that work closely together. However, each is characterized by a distinct focus, as can be illustrated through the example of Saudi Vision 2030. Leadership presents the overarching vision, identifies the challenges ahead and sets out a path to follow. Meanwhile, management is tasked with implementation: the day-to-day realities of putting these plans into action.

A range of initiatives known as Vision Realization Programs (VRPs) have been established in order to accomplish the goals of Saudi Vision 2030. These include the Public Investment Fund Program, Housing Program, Human Capability Development Program and the Privatization Program, among others. Each VPR has been appointed a board of executives and advisors, drafted from a range of disciplines, tasked with overseeing the process of implementing the program.

Thinking Critically

1. Do you think that everybody can be a leader? Give reasons for your answer.
2. Visit the Saudi Vision 2030 website, research one of the Vision Realization Programs (VRPs), and summarize its key goals.
3. Now look at the leadership team appointed to this or another VPR. Look at the titles and specialisms of individual members of the board and suggest how their experience or specialism might be valuable in realizing the program's goals.

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Chapter 6

Assessment

Review Business Concepts

6.1 Management Functions and Styles

- Managers' work can be organized within five functions: planning, organizing, staffing, implementing, and controlling. Not every manager devotes the same amount of attention and time to each of the functions.
- Most organizations have three levels of managers. Executives are top-level managers with responsibilities for the direction and success of the entire business. Middle managers are specialists with responsibilities for specific parts of a company's operations. Supervisors are the first level of management in a business and are responsible for the day-to-day work of a small group of employees.
- A manager might choose an authoritative approach when working with employees who are inexperienced, unmotivated, or uncomfortable being involved in decision making. Authoritative management might also be a good choice when operating under tight time pressures or assigning a new task. A manager should use a delegative approach when employees are skilled and experienced, the work is routine with few new challenges, employees are doing work they enjoy, the manager wants to improve group relationships, or employees are willing to take responsibility for the results of their work.

6.2 Managerial Leadership

- Strong leadership helps people with different backgrounds and personalities to work well together and do the work needed by the business. The characteristics of an effective leader are understanding, initiative, dependability, judgment, objectivity, confidence, stability, cooperation, honesty, courage, communication, and intelligence.
- The important human relations skills needed by leaders and managers are (1) self-understanding, (2) understanding others, (3) communication, (4) team building, and (5) developing job satisfaction.
- Position influence is the ability to get others to accomplish tasks because of the position the leader holds. Reward influence results from the leader's ability to give or withhold rewards. Expert influence arises when group members recognize a leader's expertise. Identity influence stems from the personal trust and respect members have for the leader.

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Think Critically About Business

1. How are the managing activities of an entrepreneur starting a new business and the top executive of a large corporation similar and different? What are the most important management skills both types of managers need for their companies to be successful?

2. Describe one important management activity for each of the five management functions.

3. Which type of management style would you personally prefer a manager you work for to have? Why? What would you have to do to work effectively for a manager who used another style?

4. You have been assigned to be the team leader of a work group that must complete a very important project. What are the first things you would do to prepare and motivate the individuals to work well as a team to complete the assignment?

5. Review the list of leadership characteristics in Figure 6-4. Which three characteristics do you believe are the most important to managers? Which three do you believe are least important? Justify your choices. Compare your decisions with those of other students.

6. To demonstrate your self-understanding, what do you believe are your human relations strengths? What are your current weaknesses? Describe some examples of situations where you believe you demonstrated effective human relations.

7. In your school or another organization, identify four people that illustrate each of the four kinds of influence. Prepare an example of how each person uses his or her influence to accomplish the work of the organization.

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Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
8.	Controlling		**a.** Identifying and arranging the work and resources needed to achieve the goals that have been set.
9.	Formal Influence		**b.** All of the activities involved in obtaining, preparing, and compensating the employees of a business.
10.	Human Relations		**c.** The way a manager works with and involves employees.
11.	Implementing		**d.** Enables a person to affect the actions of others.
12.	Influence		**e.** The process of accomplishing the goals of an organization through the effective use of people and other resources.
13.	Informal Influence		**f.** Analyzing information, setting goals, and making decisions about what needs to be done.
14.	Leadership		**g.** The way people get along with each other.
15.	Management		**h.** Determines to what extent the business is accomplishing the goals it set out to reach in the planning stage.
16.	Management Style		**i.** Power resulting from the personal characteristics of a leader rather than the formal structure of an organization.
17.	Organizing		**j.** The effort to direct and lead people to accomplish the planned work of the organization.
18.	Planning		**k.** The ability to motivate individuals and groups to accomplish important goals.
19.	Staffing		**l.** Power based on a leader's position within the formal structure of an organization.

Make Academic Connections

20. **Personal Development** The characteristics of effective leaders are shown in Figure 6-4. Create a three-column table. In the first column, list the characteristics from the figure. In the middle column, describe things you have done (hobbies, work, projects) that give evidence of each leadership characteristic. In the final column, list other things you can do in the next two years to further develop your capabilities as a leader.

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21. Math The three levels of management spend different amounts of time on the five management functions. The records of one company show the average amount of time their managers spent on each function in a week. The results are shown in the table below. Calculate the total time spent per week by all levels of management for each of the five functions. Develop a graph that shows the percentage of the total hours each group devotes to each of the management functions during their workweek.

WEEKLY AVERAGE HOURS DEVOTED TO MANAGEMENT FUNCTIONS			
	EXECUTIVES	MIDDLE MANAGERS	SUPERVISORS
Planning	22	10	5
Organizing	6	12	8
Staffing	2	7	3
Implementing	4	14	20
Controlling	18	7	6

Make Your Case

Sara has just been promoted to a supervisor role in a manufacturing company based in Dammam, where she has worked for two years. She has been informed that she will be in charge of overseeing two different teams that work in the company. Team A is made up of regular employees who are skilled and experienced in the manufacturing tasks they are given, and typically enjoy the work they do. However, as the business is expanding to meet the demand of several new contracts, a second team has been assembled to handle the overflow work. Team B is made up of part-time and temporary employees, who are inexperienced in the role. Sara is keen to ensure that both teams are productive and content in their jobs. She feels that the same management approach may not be appropriate for supervising both teams.

22. Is Sara right that the same management approach won't be appropriate for the two teams? Why?

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23. Explain which management approach Sara should adopt for Team A, giving reasons for your answer.

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24. Explain which management approach Sara should adopt for Team B, giving reasons for your answer.

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Interactions and Connections

25. There may be opportunities in your community to develop skills that will help you become an effective business leader. Select five of the leadership characteristics shown in Figure 6-4 that you would like to develop. For each characteristic selected, identify a community activity in which you can participate that will help you develop the characteristic. List the community group or organization that offers the activity and the requirements to participate in the activity. Using the organization website or by making a direct contact, identify the procedures and requirements for volunteering at one of the groups or organizations.

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26. Leadership and leadership development are important issues in business today. Many business executives maintain blogs to discuss their ideas and leadership experiences. Most of the leadership blogs encourage feedback and discussion of leadership from blog readers both inside and outside of the executive's company. Go online and locate a blog written by a business executive on the topic of leadership. Identify and write a brief description of one blog posting that discusses an aspect of leadership that you studied in this chapter. Identify and briefly describe another blog posting that provides information on leadership you did not study in the chapter. Describe how reading blogs of business executives can help develop your leadership skills. Think of a business in your neighborhood. What levels of management do you think it has?

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Chapter 7

Entrepreneurship and Small Business Management

7.1 The Entrepreneurial Life

7.2 Becoming an Entrepreneur

7.3 Small Business Basics

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Business Management & Administration

PLANNING A CAREER IN . . .

CONSULTING

When businesses face unique problems or undertake major changes, they often turn to consultants for advice and help. Consultants are not long-term employees of a company. They are hired to complete a specific task or to focus on an important challenge facing the business, such as advising on sustainability or updating the client database. Consultants may either work independently or be part of a large consulting business that employs many specialists.

Consultants provide a level of expertise to a business that may not be present among its employees and that would be difficult to develop quickly enough to solve a current problem. Consultants also may be more objective about the business than people who are working there. The primary work of consultants is to conduct research and complete other types of analysis that help businesses address important challenges they are facing. Consultants often prepare written reports and plans, provide advice to decision makers, and may even offer help in reorganizing the company and redirecting its efforts.

Related Job Titles

- Business Analyst
- Management Consultant
- Performance Consultant
- Quality Control Consultant
- Security Consultant
- Training Consultant

Analyze Career Opportunities in…

CONSULTING

Use library and Internet resources to learn more about careers in consulting. Choose one of the job titles listed in the box and answer the following questions.

1. Identify the minimum educational requirements for the job. Explain other training or education that might be needed for advancement.
2. Is this a career that interests you? What can you do now to help prepare yourself for this career?

What it's like to work as a… Consultant

Rasheed works as a small business consultant for a bank in Abha. The bank is committed to strengthening its services to small businesses. The bank employs a 10-person team to support its small business customers.

Rasheed earned a degree in accounting, worked five years for a major accounting business, and then operated his own accounting service for five years. The bank hired him as a small business consultant because of his accounting expertise and reputation in the community. He decided the consulting opportunity would be an interesting challenge.

This morning, Rasheed is meeting with Safiya, who is planning to open a home furnishings store. Safiya has submitted a business plan, but the financial plan is incomplete. Rasheed is looking forward to helping Safiya gather information and develop a complete picture of the financial needs of her business.

What about you? How do you believe Rasheed's work as a consultant is similar to and different from the work he did as the owner of a small accounting business?

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7.1 The Entrepreneurial Life

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

7.1.1 Explain what entrepreneurship is.

7.1.2 Identify characteristics of successful entrepreneurs.

7.1.3 List types of entrepreneurs and describe how they are categorized.

Key Terms

Entrepreneurship	Social Entrepreneurship
Entrepreneur	Intrapreneur

Focus on REAL LIFE

Maha has been working as a computer technician at a large company in Jeddah for the past three years. Maha enjoys her work because she has always been interested in technology. Since school, she has taken coding classes and has completed a number of certification courses in coding. In her spare time, she has provided technological advice for her friends and members of the company where she works.

Maha is seriously thinking about using her coding skills to establish an app development start-up. She wants to create apps that provide solutions to problems for people and businesses. She already has a number of contacts to help her get underway. Maha has been able to save more than SAR 50,000 in her bank account and has no debts.

Maha decides to go forward with the plan, just as many other entrepreneurs do each year. Those that become new business owners are willing to contribute a great deal of time and energy, and risk personal savings, for their venture. They hold the hope of a successful business and a reasonable profit.

LO 7.1.1

WHAT IS ENTREPRENEURSHIP?

There is no single definition of entrepreneurship. Some focus on the willingness of a person (the entrepreneur) to create value while assuming both significant risks and the rewards for his or her efforts in a new or existing business venture. Others target innovations created by entrepreneurs, while still others focus on the personality traits of entrepreneurs.

An alternative working definition of entrepreneurship focuses on the process: **Entrepreneurship** is the process of starting, organizing, managing, and assuming the responsibility for a business. It involves a process that begins with identifying an opportunity and ends with exiting the business, or what is often called "harvesting the value of the company."

Following this process-based approach, entrepreneurship entails starting, organizing, managing, and assuming the responsibility for a business. Thousands of young people have creative ideas and turn them into businesses each year. Not all ideas lead to successful businesses, but each provides evidence of the opportunities available.

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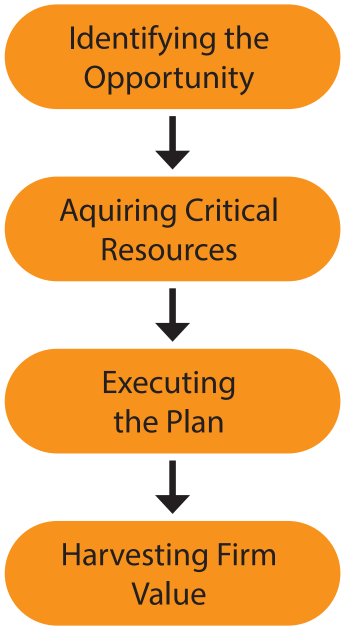
From beginning to end, entrepreneurship involves four stages, which are reflected in Figure 7-1:

1. *Identifying* an attractive opportunity. An opportunity is more than merely having a good idea. Real opportunities should be market driven, offering customers a product or service that is so appealing that they are willing to spend their money to buy it.
2. *Acquiring* critical resources needed for growing the business. In a small business, there is no more important issue than efficiently managing resources. Learning how to think about resources may mean the difference between success and failure. When entrepreneurs think about resources, they should not just think about money. It is important to also understand the following:

    - Entrepreneurs find ways to do more with less when it comes to resources.
    - Critical resources include much more than money, such as the right management team, the right partners, and access to the right assets, such as inventory and equipment.

3. *Executing* the plan. The entrepreneur must now scale the business to make it economically attractive. You will need to know how the firm will make money, support growth, and create barriers of entry to keep the competition away.
4. *Harvesting* firm value. At some point, an entrepreneur must think about exiting the business to capture the value that he or she has created over the years. This can happen by passing the business on to the next generation in the family, by selling the company to other investors, or in a few rare instances, by issuing the company's stock to the public.



Does every entrepreneur's journey follow this four-stage process?

FIGURE 7-1
The Entrepreneurial Process

Life-Span Plan

Can you think of a potentially popular service or product that is either not being offered or that you could offer more efficiently than others? Do you have a special talent that could become the starting point for a business? If so, you have the basis for a new business enterprise. Small business ownership can provide a good opportunity for practicing entrepreneurship.

CHECKPOINT
What are the four stages of entrepreneurship?

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Life-Span Plan

What personal characteristics do you have that could help you become a successful entrepreneur? What characteristics would you need to develop to be a successful entrepreneur? Describe how these characteristics may affect the life-span goals you set for your future.

Do you have ideas or skills that you could use to start a small business?

LO 7.1.2

CHARACTERISTICS OF ENTREPRENEURS

An **entrepreneur** is someone who takes a risk by starting a business to try to earn a profit. Some key factors in starting your own business are having a real desire to be your own boss and developing a good initial plan. Possessing special skills and abilities and developing innovative ideas are also important.

Clearly, successful—and unsuccessful—entrepreneurs share certain characteristics. However, not all entrepreneurs approach their goals in the same way. You only have to listen to their stories to hear the apparent differences in their priorities, perceptions, personalities, and behavior. Their success generally arises from having a clear mission, a desire to lead, and the recognition that business success requires hard work and long hours.

What Does It Take to Become an Entrepreneur?

Not all people who own or manage a business are entrepreneurs. It takes unique skills and personal characteristics to develop a new idea for a product or service. A person must also have both the confidence and capability to turn an idea into a business.

Entrepreneurs come from all age categories and different social groups. They represent both men and women, as well as varied amounts and types of education. Some entrepreneurs begin their ventures early in life, while others do not take the step until retirement.

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It is important to have an understanding of business operations and management. This understanding does not always come from getting a business degree in college. People learn how to run a business in many ways. They may work in a business or ask for help and advice from an experienced business owner. They may read and study on their own as well as in school.

There are personal traits that are common to successful entrepreneurs, as shown in Figure 7-2. While some people already have many of these qualities, others do not. If you have a desire to become an entrepreneur, you can work to develop these characteristics.

What are some advantages and disadvantages of turning a hobby into a business?

PERSONAL CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS	
ENTREPRENEURS ARE	**ENTREPRENEURS HAVE**
• competitive	• ability to partner
• creative	• ability to secure resources
• energetic	• ability to spot opportunity
• goal-oriented	• capability to learn from failure
• independent	• personal initiative
• inquisitive	• problem-solving skills
• persistent	• strong integrity
• reliable	• tolerance for ambiguity
• self-confident	• willingness to work hard

Which characteristics of successful entrepreneurs do you possess? Which ones would you like to develop?

FIGURE 7-2
Personal Characteristics of Successful Entrepreneurs

CHECKPOINT
What personal characteristics are common to most successful entrepreneurs?

LO 7.1.3

TYPES OF ENTREPRENEURS

Entrepreneurs are not only founders of new businesses. In fact, a wide range of subcategories have been created to describe different types of entrepreneur, typically grouped into broader categories themed around a specific trait. Some focus on the personality of the individual entrepreneur, or their motivations for entrepreneurship. Another approach considers the extent that the entrepreneur innovates rather than imitates. Other classifications of entrepreneurship categorize according to the size or structure of the business, stages of development, or the sector in which the business operates. Some of these key types of entrepreneur are discussed below:

- *Solopreneurs*: As the name suggests, these entrepreneurs work on their own to achieve their aims. They are typically very independent with a range of skills and do not like to rely upon others to make their business a success. Nor do they wish to share the profits and recognition if the venture proves successful.

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- *Scalable start-ups*: These entrepreneurs have big ideas with the potential to go global quickly through rapid expansion. Many social media platforms and online delivery services are examples.
- *Lifestyle entrepreneurs*: This type of entrepreneur is less focused on making profits, and more centered upon the lifestyle that running the business affords them. They might enjoy the perks that come with the experience of working within a particular sector they are interested in.
- *Serial entrepreneurs*: Unlike many entrepreneurs who devote themselves to one business they are passionate about, serial entrepreneurs build up new businesses quickly, then sell them on and use the profits to start again with a new venture.
- *Social entrepreneurs or socialpreneurs*: **Social entrepreneurship** involves focusing on a social purpose that's integral to the company. In line with the wider aims of Saudi Vision 2030, a growing number of ventures are being launched with the explicit purpose of addressing a social challenge or human need. An increasing number of universities worldwide are offering programs in social entrepreneurship.
- *Ecopreneurs*: Similar to socialpreneurs, ecopreneurs are entrepreneurs with a conscience, who put green and sustainable objectives above personal advancement or profit.
- *Intrapreneurs*: An **intrapreneur** works within an existing corporation as an employee. This individual assumes responsibility for converting a new idea into a profitable product, service, or even process. Thus, an intrapreneur mostly creates value for the company, rather than starting his or her own new business.

CHECKPOINT ✓
What are the different types of entrepreneurs?

Work as a TEAM

You are planning to open a small business that will rent electric bicycles (e-bikes) for an environmentally friendly way to move around the city. As a team, identify three possible business locations in your community and discuss which location would be best for the business. Prepare a presentation that compares and contrasts the locations. Use visuals such as maps, photos, and drawings to help illustrate your presentation.

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Business Insight

Social Responsibility in Small Business

Saudi Vision 2030 places people and communities at the heart of its goals. Companies across Saudi Arabia are increasingly showing commitment to the communities where they do business. Their contribution starts with creating jobs and providing valued products or services, but many entrepreneurs feel a duty to give back even more to the community in return for the local support they enjoy—and they usually benefit from increased goodwill as a result. It is important to recognize that opinions differ as to the extent to which businesses are obligated to engage in socially desirable activities, and the response of small businesses to that obligation also varies.

In any case, entrepreneurs should think carefully about their community commitments, because building a business on a foundation of "doing good" may add to a small company's financial burden. However, this is often more than offset by increased loyalty from customers and employees who buy into the mission, which leads to improved productivity and morale. It also sets a company apart from competitors that offer similar products or services but make no charitable contributions. Perhaps most importantly, this commitment is often rewarded by customers in two ways—repeat sales and a willingness to pay a little more for what they get. These are strong incentives to give serious consideration to a company's dedication to the community.

Think Critically

1. Can small businesses be profitable and responsible?
2. Suggest ways in which small businesses can play an active role in the local community.

Entrepreneurial Success

Rami Abu Ghazalah is the CEO of Albaik, a company founded by his father in 1974. In 2022, there are more than 120 branches of ALBAIK with more than 40 in Jeddah.

Search for more information about the success story of Rami Abu Ghazalah and give a brief presentation on how ALBAIK has grown into one of the most famous restaurants in Saudi Arabia.

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7.1 ASSESSMENT

Key Concepts

Determine the best answer.

1. True or False. Everyone who owns or manages a business is an entrepreneur.
2. Which of the following is not one of the four stages of the entrepreneurial process?
   a. Harvesting value
   b. Seeking employment
   c. Identifying the opportunity
   d. Acquiring critical resources

Make Academic Connections

3. **Math** Ali is opening a manufacturing business. It will produce a new type of USB flash storage card for smartphones and digital cameras. He has several sources for the money needed to start his business. Those sources and amounts are personal savings, SAR 56,500; loans from family and friends, SAR 38,000; venture capital investment, SAR 128,000; bank loan, SAR 22,500. Determine the total amount of capital he has accumulated and the percentage of that total from each of the sources. Prepare a pie chart that illustrates the answers.

4. **History** Use the Internet to identify important inventions and innovations developed in the past 50 years. Select the five you believe have had the greatest business success. Now select the five you believe have been most important in improving society. Prepare a short report in which you identify and briefly describe each of the inventions and innovations you selected and justifications for your choices.

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7.2 Becoming an Entrepreneur

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

7.2.1 Describe key motivations for entrepreneurship.

7.2.2 Recognize the importance of entrepreneurship in the economy.

7.2.3 Understand the resources available to Saudi entrepreneurs.

Key Terms

Innovation

Improvement

Focus on REAL LIFE

Saleh turned his electronics hobby into a business. He had a small store where he bought and sold old electronic equipment. Saleh began his business with a small bank loan and money saved from working while in college.

The business grew steadily and Saleh prepared a specific budget at the start of each year. He was able to spend his money on inventory, advertising, and improvements to his store.

This year he used the same budgeting process that he had for the past four years. Based on last year's results, he estimated a sales increase of 8%. Even with the increased expenses, the budget projected another nice profit.

The first two months of the year went well. Then the economy faltered and customers cut back on spending. Saleh's sales declined while his expenses continued to increase. Saleh studied his budget to determine why he had problems in the fifth year when his planning had been so successful in the past.

LO 7.2.1

MOTIVATIONS FOR OWNING A BUSINESS

Being an entrepreneur is incredibly rewarding but, as the case of Saleh highlights, it can be extremely challenging too. At times, you may be discouraged or apprehensive without the security of a regular job in an established company. So, before you decide to start a business, think carefully about the person you are and who you want to be, and how owning a business will help you become that person. In short, it's vitally important that you understand your personal motivations before you get into the small business world.

Four fundamental reasons for owning a company are:

1. Personal fulfillment
2. Skills utilization
3. Independence
4. Financial rewards

Entrepreneurial Success

Lubna Olayan is very well known in the world of business. She was the CEO of the Olayan Financing Group, and now sits on the Board of the group. Her finance and managerial skills and experience were sought after in Saudi Arabian banking and finance. Search for more information about Lubna Olayan's success story and give a brief presentation of the most important positions she held, and her local and international participation.

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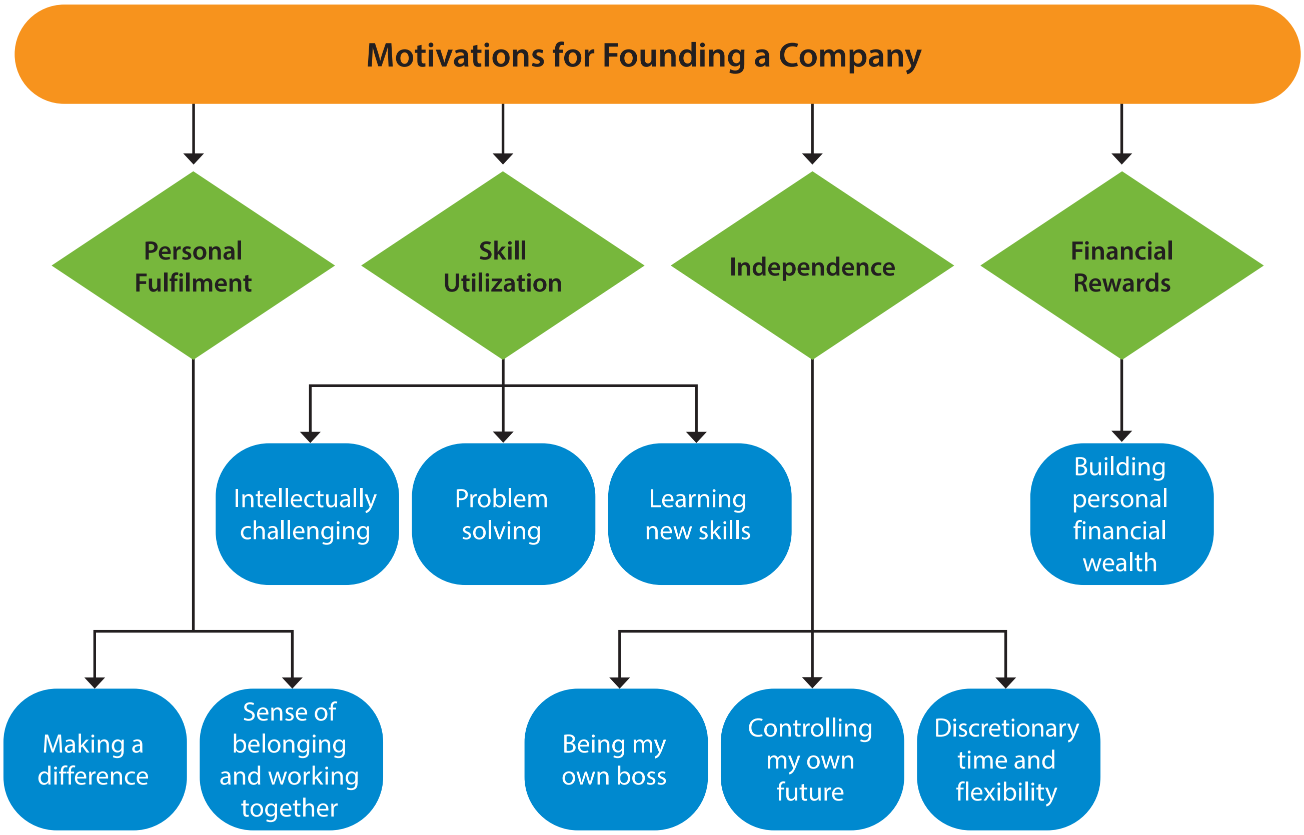
Examples of these motivations are shown in Figure 7-3.



What would motivate you to own your own company?

FIGURE 7-3
Entrepreneurial Motivations

Personal Fulfilment

Owning a business should provide significant personal fulfilment. All other motivations will not be enough in the tough times. At the core, the primary reason for owning your own business should be to create a product or service that improves life for others. Only when your company is about something more significant than yourself will you have a sense that what you are doing is meaningful and well worth the effort.

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Skill Utilization

Founding a company enables entrepreneurs to utilize a broad range of skills in carrying out their daily tasks. Entrepreneurs enjoy the process of creating a new business and all the challenges that come with it. Often, this will require problem solving and learning new skills, adding to the entrepreneur's breadth of abilities.

Independence

Many people have a strong desire to make their own decisions, take risks, and reap the rewards. They find it important to be free to make their own choices in their work. Business owners also have more freedom to decide when to work, when to be with family, and when to join community activities.

Of course, independence does not guarantee an easy life. Most entrepreneurs work very hard and for long hours. They must remember that the customer is, ultimately, the boss. However, they do have the satisfaction of making their own decisions within the constraints required to build a successful business.

Financial Rewards

Like any other job or career, owning a business is a way to earn money and make ends meet. Of course, some entrepreneurs earn lots of money, others receive a modest income for their time and investment, while many entrepreneurs work night and day just to generate enough profits to survive. Ideally, the owner should be compensated for two basic activities:

- Payment for personal time in managing the company, coming in the form of a salary.
- A return for investing personal money in the business, which should relate to the amount invested and the riskiness of the business, coming in the form of cash dividends and any increase in the value of the business as it grows.

No doubt, many entrepreneurs are highly motivated by the prospect of making money, which is totally appropriate. But it is important to understand that while some entrepreneurs do become rich quickly, the majority do not. A more realistic goal is to "get rich slowly." Wealth will hopefully come, provided the business is economically viable and the owner has the patience and determination to make it happen.

CHECKPOINT
What are the key motivations for owning a business?

New Business Opportunities and Saudi Vision 2030

When Saleh was deciding whether to turn his electronics hobby into a business, he had to think about both the opportunities and the risks. Giving up a regular job and stable income is a difficult choice. As a reward, he will have personal control over his own business. He can take personal satisfaction if his idea develops into a successful, profitable company.

Saudi Arabia is currently undergoing economic reforms, which provides an excellent opportunity for entrepreneurs with the right characteristics and determination to succeed. Saudi Vision 2030 promotes innovation and supports new business development. Many of its goals will require innovative solutions and the input of entrepreneurial minds to help accomplish them. Individuals are able to capitalize on this opportunity by starting a new business to meet its needs. They can compete with other businesses to sell their products and services and make a profit. Consumers are always looking for new and better choices to meet their wants and needs.

Many opportunities begin with the creation of new or improved products and services. An **innovation** is an invention or creation that is brand new. An **improvement** is a designed change that increases the usefulness of a product, service, or process.

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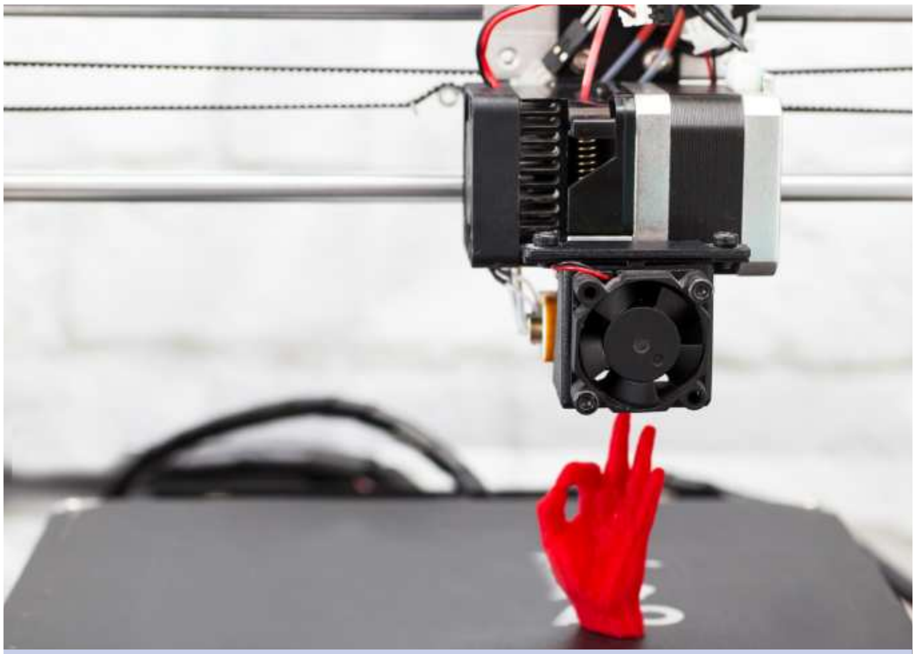
Work as a TEAM

New businesses usually need investments from other people. As a team, develop a list of questions you would ask an entrepreneur to determine if the new business would be one in which you would want to invest some of your money.



What do innovation, invention, and improvement have to do with entrepreneurship opportunities?

Inventors often develop innovations. Those inventions may become the basis for a new business. The inventor may sell them to another company for development and sale. Recent innovations that may become successful products include miniaturized personal drones, self-driving cars, and 3D printers that allow individuals and small businesses to create products without a manufacturing process.

In addition to inventions, innovators create new services that become the basis for a business. For instance, a whole range of e-services have sprung up in response to Saudi Vision 2030.

Not all entrepreneurship opportunities emerge from those types of inventions and innovations. Many come from an improved design, more effective procedures, or greater attention to quality. Entrepreneurs are creative problem solvers. Those traits lead to ideas for improved products and services.

CHECKPOINT
Where do entrepreneurship opportunities begin?

LO 7.2.2
ENTREPRENEURSHIP AND THE ECONOMY

Entrepreneurship Across the Globe

Entrepreneurship is one of the most important drivers of business around the world. Developed countries rely on entrepreneurship for economic growth and prosperity. The world's largest soft drinks manufacturers and restaurant chains, for instance, owe their rapid expansion and global presence to entrepreneurs who persevered with a goal and exported their products overseas. Many of today's most successful and well-known brands began as part-time projects, started by an enterprising individual in their garage or spare room. Many of these entrepreneurs suffered setbacks and failures on the way to success. These include global technology giants and computer manufacturers, popular social media platforms and online retailers. "Silicon Valley" in Northern California is home to many innovative tech companies that began in this fashion. Today the region attracts some of the world's finest talent, which in turn attracts more entrepreneurs looking for star players to join their new team. Many countries across the globe now have government departments devoted to promoting entrepreneurship. They enact laws and legislation to support entrepreneurship because they believe it plays an important role in achieving evolution and progress.

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Entrepreneurship in Saudi Arabia

Entrepreneurship is a growing part of the Saudi economy. Small and medium-sized businesses is playing an integral part of the Saudi Vision 2030 strategy to broaden the private sector and diversify the economy. Clearly, it's acknowledged that small ventures can make a big difference.

Saudi Arabia's rising profile in the Global Competitiveness Index highlights the culture of innovation and entrepreneurship. As of the close of Q1 2022, there are over 750,000 SMEs in Saudi Arabia – an increase of almost 15% on the previous year (Monsha'at Quarterly Report Q1 2022). These small businesses account for 99.5% of all businesses in the Kingdom. 31.8% of these Saudi SMEs are centered in Riyadh, 20.9% in Makkah, and 7.5% in the Eastern Province.

Small businesses are responsible for a significant proportion of employment in Saudi Arabia. SMEs employed 4.9 million as of October 2021, with over 1.8 million of these based in Riyadh Province. SMEs by sector are illustrated in Figure 7-4.

Quoted in the 2022 SVC Impact Report, His Royal Highness, Prince Mohammed bin Salman said: "Start-ups and SMEs are key engines for economic growth, as they aim to create jobs, foster innovation and boost exports… we strive to support entrepreneurship." In the same report, the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz recognized "the country's determination to achieve its goals though diversifying the economy base and investing in economic variables to build new national gains in which the citizen is the goal and the source."

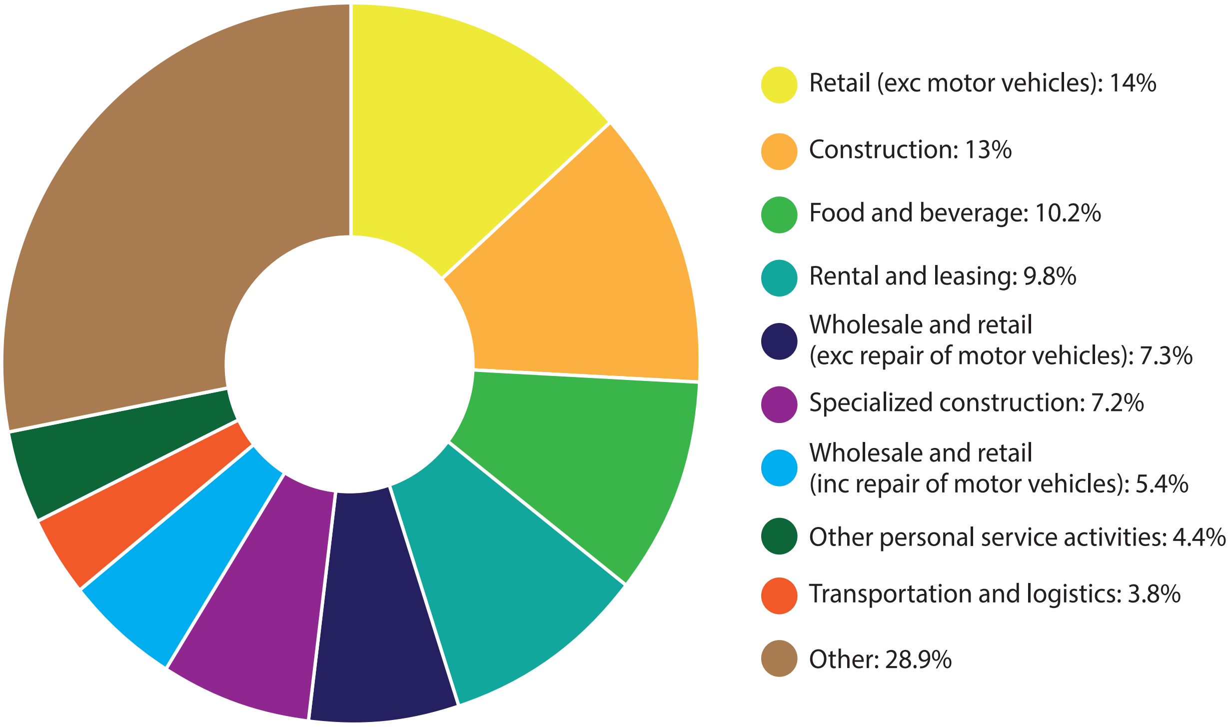

FIGURE 7-4
Saudi SMEs by Sector (Q1 2022)

(Source: Monsha'at 2022)

CHECKPOINT
How important are SMEs to the Saudi economy?

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Could a passion for quality food be the start of a viable small business?

LO 7.2.3

RESOURCES FOR SAUDI ENTREPRENEURS

Growth of the SME sector would be impossible without a dedicated infrastructure to support small businesses and promote innovation. An extensive range of services and departments are available to provide support to Saudi entrepreneurs and small businesses.

FYI

Did you know? According to the Monsha'at Quarterly Report Q1 2022, "33% of the Kingdom's adults have plans to open a business in 3 years" and "90% of Saudis see entrepreneurship as a good career choice."

Monsha'at

Monsha'at is the Saudi Arabian Small and Medium Enterprises General Authority, founded in 2016 to promote entrepreneurship and facilitate business. By 2030, it aims to raise the GDP contribution of Saudi SMEs from 20% to 35%. Its vision is "To empower SMEs sector to drive the growth of Saudi Arabia's economy and realize Vision 2030 objectives and beyond." Likewise, its mission is "Supporting the growth and competitiveness of SMEs by cultivating a growth-oriented entrepreneurial environment and leading collaboration with our strategic partners in public, private, and non-profit sectors locally and internationally."

Monsha'at's extensive range of services include an online support center, which has provided assistance to over 20,000 SMEs. The store operation manual provides tools for the retail sector, outlining steps in the journey from the foundation stage, onto the initialization stage and through to the operation stage, providing advice on the legal requirements and additional support. Monsha'at promotes e-business solutions and other innovative technologies that support the growth of start-ups. Some of the high-tech specialisms supported by its Thakaa Centers include artificial intelligence (AI), data science, and cybersecurity. The Nawafth Monsha'at app connects entrepreneurs with specialists who can support them on their endeavors. Monsha'at's financial support services are discussed further in Chapter 8.

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Center for Digital Entrepreneurship CODE

Technological innovation in Saudi Arabia is also supported by the Center for Digital Entrepreneurship, whose aims include:

- "Providing and understanding of start-up culture and digital entrepreneurship programs."
- "Reinforcing, strengthening, and enabling the use of modern technology within start-up companies."
- "Accelerating the digitization of information and strengthening our contribution to the local efforts and outputs under the digital economy."

NET KNOWLEDGE

Visit the Monsha'at website to explore the range of services and applications that support the running of a small business. Review the types of resources that can be accessed directly online. Choose one of the options and write a short summary about the information available.

Social Development Bank

Another invaluable service for entrepreneurs is the Social Development Bank, which has two key objectives, tying in with Saudi Vision 2030: "Increasing the contribution of small and medium enterprises to the economy" and "Supporting small and medium businesses financially and promoting their growth and prosperity."

Research, Development and Innovation Authority

One of the most recently established organizations supporting SMEs is the Research, Development and Innovation Authority. The RDIA was approved in 2021, and set up in response to the requirements of Saudi Vision 2030. According to the website, "The authority assumes responsibilities for encouraging and supporting the RDI sector, coordinating the activities of institutions and scientific research centers, proposing policies, legislation, and regulations, and providing sector funding." The RDIA runs a program of strategic workshops, to equip small businesses with the knowledge and expertise required to succeed in a global competitive marketplace.

University Incubation Centers

Many universities have their own incubation centers for helping budding entrepreneurs to develop their ideas and gain traction in a competitive marketplace. These often include services for individuals with no prior experience or qualifications in business or entrepreneurship. The KAUST Enterpreneurship Center, for example, offers a free 8-week online course that welcomes all entrepreneurs regardless of level of experience.

CHECKPOINT

What support services are available to Saudi entrepreneurs and SMEs?

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7.2 ASSESSMENT

Key Concepts

Determine the best answer.

1. Which of the following is not one of the four fundamental reasons for owning a company?
   a. Personal fulfilment
   b. Skill utilization
   c. Becoming famous
   d. Independence

2. True or False. University Incubation Centers help entrepreneurs to develop their ideas and gain traction in the marketplace.

3. True or False. The services of Monsha'at are provided to support large multi-national corporations and state-owned businesses.

Make Academic Connections

4. **Communication** Interview a small business owner who has operated his or her business for at least three years. Determine the factors that have contributed to success as well as the major challenges that have been faced. Prepare a presentation based on your interview.

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LIFE/WORK SKILLS

SUPPORTING ENTREPRENEURSHIP BY PROVIDING SOCIAL CAPITAL

While social media has connected people across the globe, it is not a substitute for traditional networks and working relationships established over time in the “real” world. Having existing contacts is a great start, but business networking is an invaluable skill that can be honed with practice. Good contacts can help a venture obtain investment and technology resources. But they can also connect the enterprise with a social network that provides access to a wide range of resources beyond the reach of individual team members.

A social network is the web of relationships that a person has with other people, including friends from school or college, former employees and business associates, and contacts through community organizations and the local Mosque. But it doesn’t end there. A friend from college may not have what you need, but he or she may know someone who does. It is often said that business is all about relationships, a principle that is not lost on successful entrepreneurs. And the power of social networks is expanded tremendously as well-connected people are added to the management team.

A healthy system of personal relationships can help a small business access the knowledge and resources it needs to get established and grow. Social networks can be especially helpful in jump-starting sales. Reputable firms may hesitate to do business with a new company lacking a proven track record. But influential advocates can use their pull to help a small business acquire high-profile customers, which may persuade others to give a relatively unknown company a shot at their business, too. For an entrepreneur, having a healthy social network with useful connections can be critical in establishing a solid reputation.

Small business owners are finding that they can use networking tools to attract customers, connect with peers, and share advice about common problems. Building an active and robust social network can increase their social capital – the advantage created by an individual’s connections within a network of social relationships. However, this advantage doesn’t develop overnight. It takes years to build social capital, and the building blocks that support it are well known—being reliable as a friend, being fair in your dealings, and being true to your word.

Think Critically

1. Why do you think it is important to build networks with other business professionals in the “real world,” and not just online?
2. Think about the networks you have already built in your social life, at school, or other community groups. Do you know people with experience who you can call upon for advice? For example, someone who can help with computer literacy or learning another language? Likewise, do you have skills or expertise that you can share with others in your community?

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7.3 Small Business Basics

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

7.3.1 Define a micro, small, and medium sized business and identify important characteristics of small businesses.

7.3.2 Recognize the competitive advantages of small businesses.

7.3.3 Identify challenges faced by many small businesses.

Key Terms

Small Business

Competitive Advantage

Focus on REAL LIFE

During dinner, Sara excitedly told her family what happened in her Introduction to Business class. The class had spent the time thinking about opportunities for owning a small business. Sara knew that is what she wanted to do.

Sara's grandfather said, "Did you know I ran a small business for almost 10 years when I was young? I was as excited as you are about starting a business when I graduated from high school. I went to work for the owner of a small hardware store. I hoped that I could save enough money to open my own store. Luckily, after eight years, he decided to retire. We worked out an arrangement where I could buy the store from him over a number of years."

"What advice can you give me?" Sara asked.

"Being a small business owner is exciting, but it is a difficult life," explained her grandfather. "I'm excited for you, but I want you to know that achieving your goals will be challenging. If you work hard, learn from mistakes and don't give up, I'm sure you'll succeed."

LO 7.3.1

WHAT ARE MICRO, SMALL, AND MEDIUM BUSINESSES?

When many people think about business, they often picture very large corporations. These companies employ thousands of people with locations all over the country and the world. That is not the true picture of most businesses. Small businesses account for a significant and growing number of businesses in Saudi Arabia's private sector.

The official definition of a **small business** can vary from country to country. In Saudi Arabia, SMEs are separated into three separate categories (micro, small, and medium), according to the number of full-time employees and annual revenues, as illustrated in Figure 7-5. The Monsha'at website has a handy tool for calculating the official designation of a business's size by toggling these factors. An enterprise size certificate can be issued to the business by registering through the Monsha'at website.

A typical small business may have the following attributes:

- The owner is the manager.
- It operates in one or very few locations.
- It typically serves a small market.
- It is not dominant in its field.

Most small businesses operate in service industries, with retail accounting for the largest proportion. Examples in this sector include small stores, restaurants, and cafés.

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Why are there so many small businesses in services and retail?

Small and Medium Enterprises (SMEs)			
Size	**Micro**	**Small**	**Medium**
Full-time employees	1-5	6-49	50-249
Revenue	SAR 0-3 million	SAR 3-40 million	SAR 40-200 million

(Source: https://www.monshaat.gov.sa/en/SMEs-definition)

How small is a 'small' business?

FIGURE 7-5
Monsha'at's Official Definition of Business Size

FYI

Small business owners report that the Internet is having a positive impact on their companies. In a recent survey, 51% said the Internet helped increase their profits and 49% said its use resulted in reduced operating costs.

CHECKPOINT
Beyond Monsha'at's formal definition of a small business, what four points can be used to describe a small business?

The Relationship Between Small Business Ownership and Entrepreneurship

While there is a link between small business ownership and entrepreneurship, it is important to note that they are not identical or interchangeable terms. Many small business owners demonstrate characteristics of entrepreneurship, whereas others do not. Likewise, not every entrepreneur is a small business owner. Some entrepreneurs are in charge of very large companies.

Suppose, for example, that Ali and Hasan are both small shop owners in a suburban neighborhood just outside of Riyadh. They are both classed as small business owners (or technically micro businesses under the official Monsha'at definition).

Ali inherited his shop, taking over management of the family business from his father. He enjoys serving the local community and has no ambitions to expand. In contrast, Hasan borrowed money to open his shop, in order to sell his own unique products that he designed personally. He has plans to open another two locations and also sells his products online to customers overseas. Clearly, Hasan is demonstrating entrepreneurial characteristics whereas Ali is not. However, small business owners such as Ali can run very successful businesses without engaging in entrepreneurial activities.

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LO 7.3.2

SMALL BUSINESS COMPETITIVE ADVANTAGES

Your family may need someone to maintain the grounds of your property, provide catering for an event, build custom storage, or repair hardware on the home computer. Where would you turn for help? It may not be likely that you will find a large business for all of those services. In some situations, small businesses have a **competitive advantage** over larger businesses, which means they are better able to meet a certain need.

Meeting Customer Needs

Small businesses play a vital role in the economy. They often serve customers where the number of products and services needed is small or the requirements are too specialized for large businesses to make a profit. It is easier for a small business to meet the precise needs of customers than a large business. Even though a large business has more resources, to operate efficiently it must focus on products and services that meet the needs of a large group of customers. That makes it harder to satisfy the unique needs of single customers.

Small businesses often are not able to match the lower operating costs of larger businesses. They can compete by paying attention to their customers. Small businesses serve fewer customers and usually have more frequent contact with those customers than large businesses. They are more likely to be located close to the customer. They depend less on other businesses to distribute or service their products.

Large businesses often rely on consumer research to gather information. Small businesses usually get direct information from their customers about what they like and dislike.

Providing Unique Services

Small businesses are especially suited to provide unique services for customers. They may plan an event or design a customized sound system for your home. Providing those types of services means that business representatives must take a special interest in the customer. They spend time determining needs and discussing alternatives. They have the expertise to plan and deliver the services that satisfy the customer. Large businesses may not find it profitable to spend that much time with each customer. Also, it is possible that not every employee who works with customers will have the expertise to design the required service.

Big business has a clear advantage when a large number of customers are willing to buy standard products and prefer low cost and efficient delivery. Small businesses gain an advantage when customers have unique needs, want more individual attention, and are willing to pay a bit more for the product or service to obtain what they really want. When asked, "What businesses do you believe are most concerned about you as a customer?" the majority of consumers identify small businesses.

How do small businesses provide unique services that large businesses cannot?

CHECKPOINT

How can small businesses compete successfully with larger businesses?

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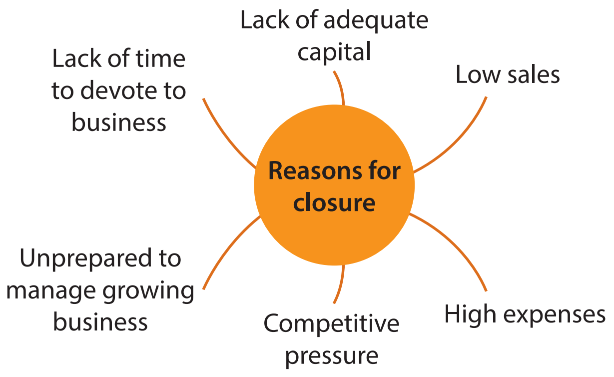
LO 7.3.3

COMMON SMALL BUSINESS CHALLENGES

Many successful entrepreneurs and their businesses are well known. Their success encourages others to think about starting a new business. However, developing a successful new business is not easy, and there is always a possibility that it will fail.

In fact, the failure rate of SMEs is much higher than larger businesses. Many failures result from the inability to pay expenses. The business is then forced to close. Some companies quietly go out of business when the owner believes that he or she is not doing well enough to continue. The time and energy required of new business owners is much higher than most people expect. The owner may get tired of the long hours and hard work.



Can you think of any other reasons why a new business might close?

FIGURE 7-6
Typical Reasons for New Business Closure

Reasons for Failure

The most common reasons for small business failure include:

- Not keeping adequate records
- Lack of adequate capital
- Lack of management experience
- Lack of experience with the type of business
- Not controlling operating expenses
- Poor location for the business
- Failure to manage credit offered to customers
- Low sales
- Competitive pressure
- Operations requiring more time than the owner is willing to commit

Some of the primary reasons for the closure of businesses started by entrepreneurs are illustrated in Figure 7-6.

Recognizing Risks and Seeking Assistance

Entrepreneurs need to be aware of the many risks they may face and prepare for them. Most entrepreneurs are willing to take risks. They will work hard to make their businesses succeed. However, many entrepreneurs have seen one or more of their business ideas fail before they were able to grow a successful company.

With the right kind of assistance, small businesses can overcome each of the causes of failure listed above. Small business owners can get support from a number of sources, such as Monsha'at, Social Development Bank and Research, Development and Innovation Authority described earlier. Universities and colleges often have faculty members who can give advice and support to people who are starting or have started their own businesses. Local groups of business people, such as chambers of commerce, have members who can help others with business problems.

Where can small businesses find assistance?

Work as a TEAM

Identify two or three small businesses in your community that have been successful for many years. As a team, discuss what you think these businesses do that allows them to compete successfully with other small and large businesses.

CHECKPOINT
List common reasons for small business failure.

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7.3 ASSESSMENT

Key Concepts

Determine the best answer.

1. Monsha'at considers a business small if it employs ________ employees.
   a. 1–5
   b. 6–49
   c. 50–249
   d. 250–500
2. A competitive advantage that small businesses have over larger businesses is
   a. lower costs
   b. more consumer research
   c. lower prices
   d. attention to unique customer needs
3. Which of the following is not one of the reasons small business fail?
   a. poor customer credit practices
   b. the owner does not have adequate experience
   c. a poor business location
   d. not enough employees to do the work

Make Academic Connections

4. **Technology** Online auction services have become the home of many small businesses. Thousands of small business owners earn an excellent income by selling their products using these websites. Visit an online auction website and identify three ways a small business can use the website to support its operations.

5. **Research** Interview 10 people who have recently purchased products or services from a small business. Ask them to list the top three reasons they made the purchase from a small business rather than a large business. Summarize the results from your interviews and present your findings in the box below.

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Chapter 7

Assessment

Review Business Concepts

7.1 The Entrepreneurial Life

- Successful entrepreneurs have a real desire to be their own boss. They use special skills and abilities to come up with innovative ideas and then develop a good initial plan for a business. Entrepreneurs represent all age categories, women and men, as well as varied educational levels.
- Entrepreneurship is a key and growing part of the Saudi economy. Successful entrepreneurs often possess natural skills and characteristics (competitive, creative, reliable, goal-oriented, capability to learn from failure, willingness to work hard) but all entrepreneurs can work to develop these characteristics. Small businesses are responsible for 20% of GDP, rising to 35% by 2030.
- Opportunities open to entrepreneurs include the creation of new or improved products and services, an improved design, more effective procedures, or greater attention to quality. Risks include lack of adequate capital, low sales, higher than expected expenses, competitive pressure, an owner unprepared to manage a growing business, and operations that require more time than the owner is willing to commit.

7.2 Becoming an Entrepreneur

- Four fundamental reasons for owning a company are personal fulfilment, personal satisfaction, independence and financial rewards. Saudi Vision 2030 is opening up many opportunities for entrepreneurs with innovative ideas.
- Entrepreneurship is a key driver of business across the world. It is a growing part of the Saudi economy, with over 750,000 small and medium enterprises in Saudi Arabia by the close of Q1 2022.
- A range of services and departments are available to Saudi entrepreneurs and small businesses. Monsha'at is the Saudi Arabian Small and Medium Entreprises General Authority. It aims to drive growth of the private sector and empower SMEs. Other useful resources include the Social Development Bank and the Research, Development and Innovation Authority, and Universtity Incubation Centers.

7.3 Small Business Basics

- In a small business, the owner is usually the manager, it operates in one or very few locations, it typically serves a small market, and it is not dominant in its field of operation.
- Small businesses play an important role in the economy. They often serve customers where the number of products and services needed is small or the requirements are too specialized for large businesses to be profitable.
- Some of the most common reasons for small business failure are not keeping adequate records, not having enough start-up money, lack of management experience, lack of experience with the type of business, not controlling operating expenses, poor location for the business, and failure to manage customer credit.

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Think Critically About Business

1. Describe a new product or service that could become the basis for a new business that fits your interests, hobbies, or special skills and abilities. What are some reasons you would be interested or not interested in becoming an entrepreneur?

2. Why do you believe that small businesses contribute more new jobs to the economy than large, established businesses?

3. Describe some of the key factors that you believe have contributed to the success of the top entrepreneurs across the world. Do you believe the idea for a product or service is more or less important than an entrepreneur's personal characteristics?

4. How is the Internet changing the characteristics of small businesses? Do you believe the Internet can make small businesses more competitive with large businesses? Why?

5. Ali is thinking about starting a small business and has come to you for advice. Using the reasons why most small businesses fail as listed in Lesson 7.3, what would you tell Ali that will help him increase his chances for being successful?

6. In many communities, there are several locations where retail businesses locate but soon fail. They are followed by other businesses that also fail. People say the pattern of failure is because of a poor location. Do you agree that the location is the most likely reason that the businesses fail? Why would a new business consider a location where a previous business has already failed?

7. Identify the three types of people you believe would be the most important to assist a new small business owner. Justify each of your choices.

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Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
8.	Competitive Advantage		**a.** A business with 6–49 full-time employees and SAR 3–40 million in revenue.
9.	Entrepreneur		**b.** An invention or creation that is brand new.
10.	Entrepreneurship		**c.** A designed change that increases the usefulness of a product, service, or process.
11.	Improvement		**d.** The process of starting, organizing, managing, and assuming the responsibility for a business.
12.	Innovation		**e.** Someone who works within an existing corporation as an employee and assumes responsibility for converting a new idea into a profitable product, service, or process. They mostly create value for the company, rather than starting their own new business.
13.	Intrapreneur		**f.** A situation in which one business is better able to meet a certain need.
14.	Small Business		**g.** Entrepreneurial activity whose goal is to find innovative solutions to social needs, problems, and opportunities.
15.	Social Entrepreneurship		**h.** Someone who takes a risk by starting a business to try to earn a profit.

Make Academic Connections

16. **Communication** Many small business owners obtain some of their start-up financing from family members and friends. Assume you are starting a small Internet business that will develop and maintain low-cost websites for local organizations, clubs, and non-profit groups. You have SAR 7,000 of your own money to invest and need to raise an additional SAR 10,000. Develop a letter or one-page brochure that you can use to interest family and friends in investing SAR 1,000 or more in your new business. Make sure it is persuasive and tells them what benefits they will receive from their investment.

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17. **Government** The Saudi Government provides many resources as well as financial support for small businesses. Use the Internet to locate two national or local agencies of the government that provide services developed specifically for small businesses. Prepare a brief report on each of the agencies you identified in which you describe the agency, the services provided, and how a new business can qualify for the services.

Make Your Case

Ahmed completed a college program in Small Business Management. He wanted to own his automobile repair shop. He had worked for a local maintenance center during college. In addition, he was able to save almost SAR 50,000 toward starting his own business. However, he knew that he would need more than that to buy a garage workshop. Ahmed studied three ways he might start his business.

a. He could find a partner to provide the additional cash.

b. He could work for the local maintenance center until he retires in seven years and buy the business with his accumulated savings.

c. He could purchase a franchise for an investment of SAR 5,000. However, Ahmed would have to pay a franchise fee of 6% of total receipts each year to the franchisor.

18. What are the advantages and disadvantages of each route to small business ownership for Ahmed?

19. If you were Ahmed, which choice would you make? Why?

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Interactions and Connections

The Internet has opened a world of opportunities for entrepreneurship. Budding entrepreneurs can now easily reach customers with online games, products, social networking opportunities. Often the businesses developed from these entrepreneurs' ideas are purchased by larger companies, turning them into millionaires.

20. Research online to find information about how entrepreneurs have used the Internet to launch their businesses. Determine why these businesses were successful.

21. Identify an idea for a business that you would like to start using the Internet. Develop a short business plan to determine if your idea would be feasible.

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Chapter 8

Starting a Small Business

8.1 Developing Start-up Ideas

8.2 An Overview of the Business Plan

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Business Management & Administration

PLANNING A CAREER IN...

SMALL BUSINESS OWNERSHIP

Entrepreneurship should be about fulfilling dreams—for the entrepreneurs themselves, their families, their employees, and their communities. The journey should always be about more than just the money. As a small business owner, what you do matters, not just to yourself, but to others as well.

As you look to your future career path, there are definite advantages to initially working for someone else. It can allow you to learn an industry, build relationships, and develop important skills for the future. But many individuals choose to start their own company early in life too. We all know entrepreneurs and small business owners who will not be the next global business tycoon, but who will build or already own small businesses that create value and make a difference in the community. These small companies are the heart and soul of local communities and an increasingly important element of the Saudi economy.

Related Job Titles

- **Entrepreneur**
- **Director**

Analyze Career Opportunities in...

SMALL BUSINESS OWNERSHIP

Use library and Internet resources to learn more about careers in entrepreneurship. Choose one of the job titles listed in the box and answer the following questions.

1. Are there any minimum educational requirements for the job? Explain other training or education that might be needed for advancement.
2. Is this a career that interests you? What can you do now to help prepare yourself for this career?

What it's like to work as a . . . Small Business Owner

After much deliberation, Haifa finally followed her dream of setting up her own small business. For many years, she had craved the responsibility and independence of being her own boss. However, she didn't have a specific business type in mind, and struggled to think of a unique start-up idea. She didn't want to take the risk until she found a business plan that she cared about enough to devote her energy and savings to. Then one day the question answered itself. A store came up for rent in her local town, and she was offered the remaining homewares stock for a good price. Haifa decided to reopen the store temporarily, then use the profits from selling the stock to convert the space into an office to develop a new business plan. Haifa enjoyed running a store more than she had expected and made a good profit. She decided to forget her other plans and expand the range of homewares with her own designs. It wasn't easy running her own small business, and although the store wasn't her original plan, it turned out to be a rewarding challenge.

What about you? Do you have what it takes to be a small business owner? It requires serious thought and you may need to begin very small, but dream big if you want. Follow a dream that you really care about and enjoy a life that you truly want to live!

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8.1 Developing Start-up Ideas

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

8.1.1 Understand the concept of opportunity recognition.

8.1.2 Describe three basic types of start-up ideas.

8.1.3 Describe common sources of start-up ideas.

Key Terms

Opportunity Recognition	New Market Ideas
Start-ups	Pivot
New Technology Ideas	New Benefit Ideas

Focus on REAL LIFE

Hani has an idea for a tech start-up that he thinks could be hugely successful in Saudi Arabia and other parts of the world. He's often outside and fed up of his cell phone running out of battery, with no means to charge it up. So he has developed an idea for a lightweight and flexible solar panel that can be integrated into a phone case, to charge up in the sun during the day.

However, after carrying out some research, he discovers that another small company in Jeddah has already had a similar idea and started developing a basic product. At first, Hani is disappointed, but he soon realizes that his design is more innovative and offers additional benefits. If successful, he believes that the technology could have a range of other applications for other small devices, including wearable solar panels integrated into the fabric of clothing accessories or bags. Hani decides to continue on with his original idea and is determined to make his products the market leaders.

LO 8.1.1

IDENTIFYING BUSINESS OPPORTUNITIES

The purpose of this lesson is to help you identify a business opportunity that is best suited to you and has higher odds for success than other possible options. By studying this lesson, you should be able to distinguish among the different types and sources of start-up ideas.

You can be certain that entrepreneurs are going to keep coming up with innovative ways of doing things. And the new businesses they create often change the way we live. However, an entrepreneur must be able to recognize a start-up idea that can lead the way to sound business prospects. In fact, identifying imaginative new products or services that may lead to promising business ventures is so central to the entrepreneurial process that it has its own name—**opportunity recognition**.

Life-Span Plan

What hobbies, interests, and experiences do you have that could help you achieve your life-span goals? Describe steps you could take now that would expand your experiences and opportunities for achieving your life-span goals.

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What sets entrepreneurs apart from everyone else is their ability to see the potential that others overlook and then take the bold steps necessary to get businesses up and running. Often, the identification of a new business opportunity is the result of an active search for possibilities or insights derived from personal or work experiences.

Perhaps you already have a business idea in mind that you would like to pursue. With good planning and the right strategy, you may soon be on your way to success as an entrepreneur. On the other hand, you may have a passionate desire to start your own company but are not sure that you have locked onto the right business idea to get you there. Or maybe you have an idea in mind but are not sure if it is a good business opportunity. No matter which group you fall into, taking the rights steps will help to get you started on the right foot, with the right idea and the right strategy.

This lesson focuses mostly on opportunity recognition and strategy options as these apply to **start-ups**—that is, businesses that did not exist before entrepreneurs created them. However, as you read this lesson, keep in mind that many of the insights and strategies described here also apply to ongoing small businesses, not just to start-ups.

Are you able to recognize current opportunities for business ideas? Which new technologies might inspire a new start-up?

CHECKPOINT ✓
What is opportunity recognition?

LO 8.1.2

TYPES OF START-UP IDEAS

So how do you get started? It all begins with a promising business idea. But new venture concepts are not all equal, and they can come from many different sources. By recognizing the nature and origin of start-up ideas, an entrepreneur can broaden the range of new ideas available for his or her consideration.

Figure 8-1 shows the three basic types of ideas from which most start-ups are launched: ideas to enter new markets, ideas based on new technologies, and ideas that offer new benefits. Each type of idea has its own unique features.

Entrepreneurial Success

Latifa Al-Walan is a businesswoman and information engineer, who invented the first electronic machine used in making Arabic coffee in the world (Yatooq), and she was able to register a patent for her invention in her name.

Search for more information on the success story of Latifa Al-Walan, give a brief presentation about how she developed the idea for the Yatooq machine, and her journey in the world of entrepreneurship.

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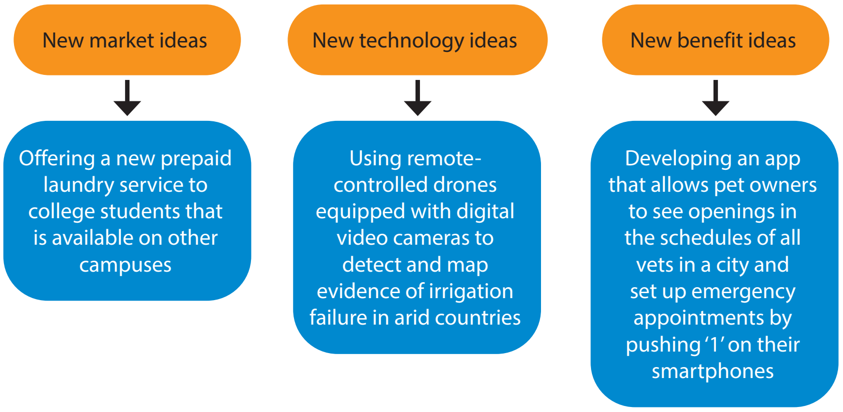

Can you think of examples of each of these types of ideas?

FIGURE 8-1
Types of Ideas that Develop into Start-ups

New Market Ideas

Numerous start-ups develop from **new market ideas**—that is, those concerned with providing customers with a product or service that does not exist in a particular market but does exist somewhere else. Indeed, many of the largest companies in existence today were initially launched with a vision of applying existing ideas in new contexts. Because it has so much potential, taking this angle on new venture ideas should be given careful consideration.

New Technology Ideas

Other start-ups are based on **new technology ideas**, which involve new or relatively new knowledge breakthroughs. This type of business can be high risk because there is usually no definitive model of success to follow, but it can also offer tremendous promise. You should pay close attention to the fundamental features of a well-conceived new venture of this type. For starters, the technology involved needs to be unique, better than others currently available, feasible to implement, and focused on a market need that is deep enough to generate sufficient sales. Also, the founders should have the knowledge, skills, resources, and connections necessary to build a profitable company around the new technology.

Because of the complexities involved with new technology businesses, it often becomes necessary for entrepreneurs to **pivot** at some point after start-up. This refers to refocusing the start-up as it unfolds or completely recreating it if the initial concept turns out to be seriously flawed. If the initial idea turns out to be unsound, it is best to "fail fast and fail cheap." While pivoting is sometimes helpful for other types of start-ups, it is common and frequently necessary (often more than once) for those based on new technologies.

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New Benefit Ideas

New benefit ideas are based on offering customers benefits from new or improved products or services or better ways of performing old functions—account for a significant number of start-ups. For example, a growing number of successful start-ups have been launched offering healthier alternatives to sweet treats and snacks, highlighting that focusing on new benefits can sometimes lead to really great business ideas.

CHECKPOINT
What are the three key types of start-up ideas?

Can you think of any novel applications for new technologies?

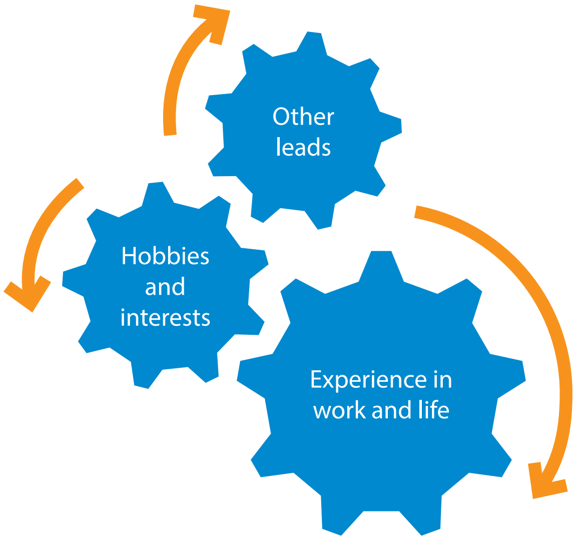
LO 8.1.3

COMMON SOURCES OF START-UP IDEAS

Ideas for a start-up can come from anywhere, but for now we will focus on personal/work experience, hobbies and personal interests (see Figure 8-2).

Personal/Work Experience

One of the primary sources of start-up ideas is personal experience. Often, knowledge gleaned from a present or former job allows a person to see possibilities for modifying an existing product, improving a service, becoming a supplier that meets an employer's needs better than current vendors, or duplicating a business concept in a different location. Perhaps your personal contacts (your network) include suppliers that are interested in working with you or customers whose needs are not currently being met. Start-up concepts may even result from trying personal circumstances or misfortunes, especially when the entrepreneur can use work experience or technical skills to address the challenge at hand. Regardless of the situation, these insights may lead you to an opportunity with tremendous potential.



Where do your best ideas come from?

FIGURE 8-2
Typical Sources of Start-up Ideas

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Can you think of a person who successfully managed to turn their hobby into a small business?

Hobbies and Personal Interests

Sometimes, hobbies grow beyond being leisure activities to become businesses, and they can add surprising energy to the start-up process. For instance, horseback riding enthusiasts might start a riding equipment rental operation as a way to make income from an activity that they enjoy. While we don't expect all or even most small businesses to grow into life-changing technology giants, these success stories prove that fun side projects can sometimes grow into significant new companies with serious profit potential. In fact, recent research has revealed that start-ups based on a personal pastime are more likely than others to generate early sales and reach profitability, and the entrepreneurs who launch these businesses tend to be more deeply committed to them.

Other Idea Leads

If the sources of start-up ideas just discussed do not reveal a specific entrepreneurial opportunity that is right for you, examine the following methods shown in Figure 8-3, which have been useful to many entrepreneurs:

- Tap into personal contacts with potential customers and suppliers, professors, patent attorneys, former or current employees or co-workers, venture capitalists, and chambers of commerce.
- Visit trade shows, production facilities, universities, and research institutes.
- Observe trends. For example, the move away from dependence on oil is linked to material limitations, energy shortages, emerging technologies, pollution problems, and social movements. Pollution problems can indicate that there is a demand for sustainable alternatives to polluting technologies, which may become more popular in the future.
- Pay close attention to all forms of change, including shifts in specific industries and markets, demographic swings, and emerging discoveries or scientific breakthroughs.
- Read trade publications, and profiles of entrepreneurs and various business opportunities in trade periodicals.
- Search the Internet, where you can find an unlimited supply of information on the start-up process, specific opportunities, and online tools that profile business ideas that can be browsed by industry, interest, and profession.

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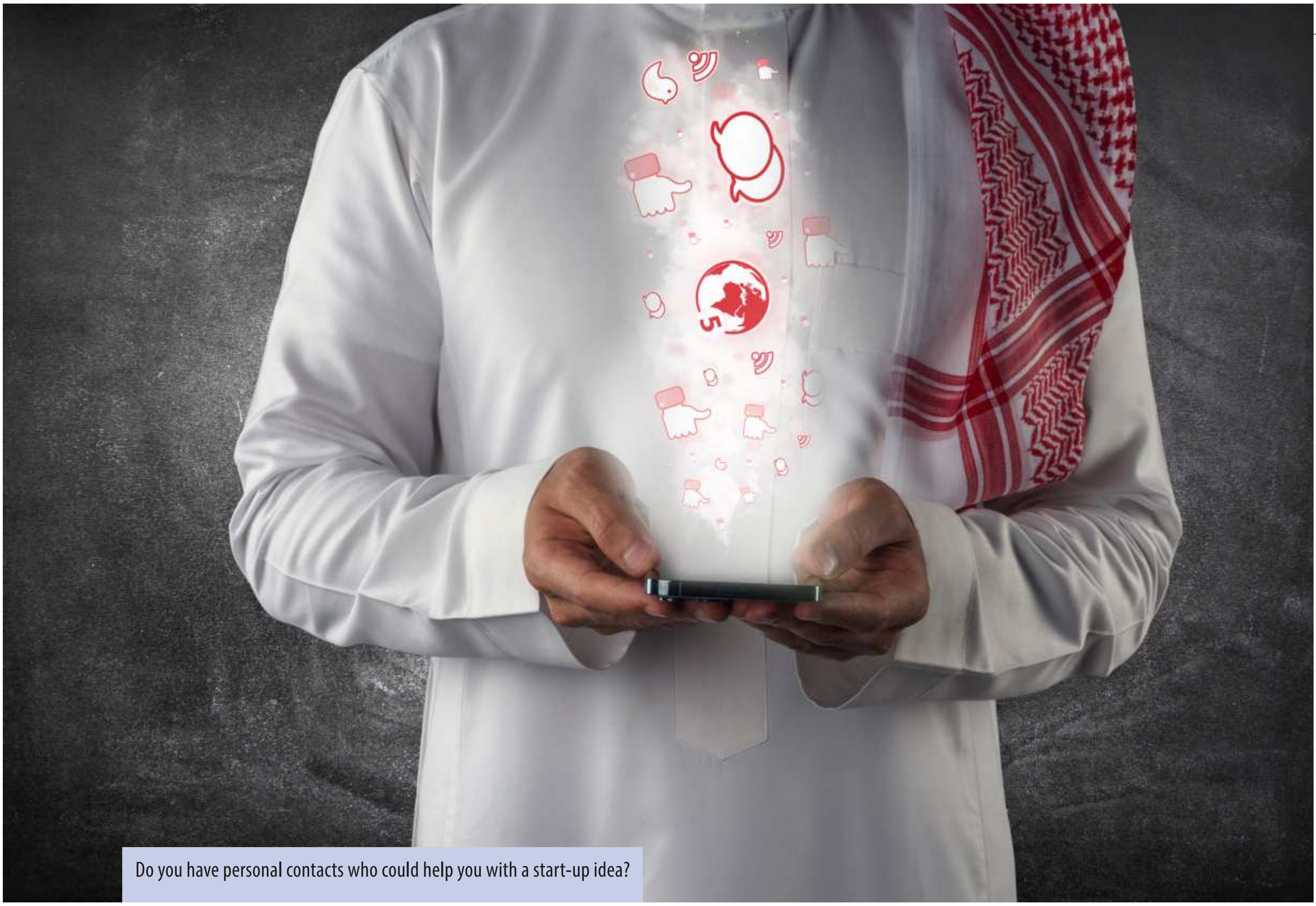

Do you have personal contacts who could help you with a start-up idea?

Can you think of any other potential start-up generation leads?

FIGURE 8-3
Other Leads for Generating Start-up Ideas

CHECKPOINT
What are the common sources of start-up ideas?

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Business Insight

Online Customer Reviews

You are looking to buy a new technology product. Which brand should you buy and what store should you patronize? Answers to these questions often start with personal contacts. According to a Nielsen online survey, 84% of global respondents stated that word-of-mouth recommendations from friends and family are the most influential source of information. Nielsen also found that consumer opinions posted online are now the second-most important source of information.

Many small businesses rely on good feedback from online reviews to attract new and returning customers. Currently, over 60% of customers read online reviews before making a purchase decision. Studies have shown that positive online reviews influence consumers to buy products or services and negative online reviews cause consumers to refrain from buying them.

A number of customer review and rating sites now operate online. These businesses offer consumer ratings and links to purchase products or services. As the consumer online review process evolves, online reviews are increasingly linked to social networks. This allows you to see reviews written by your friends and family. Online review services can also be an invaluable resource for entrepreneurs looking for new start-up ideas. What better way to fulfil a market need than to consult the direct and honest feedback of your potential audience?

Think Critically

1. How do online reviews benefit consumers?
2. How should a small business react to the online review process?

Entrepreneurial Success

Abdullah Al Dabbas is Chairman and founder of Baja Food Industries Company. He started the company back in 1997 in Riyadh, where he sold Egyptian seeds from a truck on the side of the road. This went so well that he had the idea to expand into a store that sold seeds, nuts, and coffee.

Search for more information about Baja and give a brief presentation about Abdullah Al Dabbas's efforts in transforming a small project into a major well-known Saudi brand.

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8.1 ASSESSMENT

Key Concepts

Determine the best answer.

1. True or False. Identifying imaginative new products or services that may lead to promising business ventures is known as opportunity recognition.
2. Which of the following is not one of the typical sources of start-up ideas?
   a. personal experiences
   b. hobbies and interests
   c. picking a topic at random
   d. experience in work
3. The introduction of new or improved features of products or services is known as:
   a. new benefit idea
   b. new technology idea
   c. failing
   d. knowledge breakthrough
4. True or False. A new benefit idea always comes from a new technological innovation.

Make Academic Connections

5. **Research** Use the Internet or library to research small businesses in your local community. Choose three different types of business. Describe what products they sell or services they offer and identify any special characteristics that make them unique or that differentiate them from other businesses. Explain whether you think these businesses would be attractive start-up propositions, and suggest any innovations or improvements that could be made if you were the small business owner.

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8.2 An Overview of the Business Plan

Link to digital lesson

www.ien.edu.sa

Learning Outcomes

Once you have completed this lesson, you should be able to:

8.2.1 Explain the purpose and objectives of a business plan.

8.2.2 Understand how a business plan can be used as a communication and evaluation tool.

8.2.3 Determine funding available to entrepreneurs and how to pitch to investors.

Key Terms

Business Plan
Venture Capital
Business Model
Pitch

Focus on REAL LIFE

When Mohammed mentioned an idea for a new business to a friend who's a business owner, his friend said, "You'll need to prepare a business plan." While the business idea sounded great, spending hours writing a formal document was not exactly Mohammed's idea of fun, and he wondered if it was absolutely necessary. After all, Mohammed knew an entrepreneur who started and successfully grew a company based on an idea developed on the back of a napkin over dinner. He could also think of several well-known and successful global businesses that were started without business plans. So, should Mohammed write a business plan or not? That is the question that this lesson will help you answer.

LO 8.2.1

KEY ELEMENTS OF THE BUSINESS PLAN

For many small business owners like Mohammed, the time comes when it is necessary to develop a **business plan** that effectively tells their story in order to gain partners who will help transform their vision into reality. The business plan also communicates the competitive advantage, which differentiates the proposed business from the rest of the companies in the market place.

Traditionally, a business plan has been described as a document that outlines the basic concept underlying a business—specifically, what problem will be solved—and describes how the entrepreneur will execute the plan to solve the problem. The plan should lay out the basic idea for the venture and include descriptions of where the entrepreneur is now, where she or he wants to go, and how she or he intends to get there.

A business plan can also be thought of as an entrepreneur's game plan. It gives shape to the dreams and hopes that have motivated the entrepreneur to take the start-up plunge. As discussed in Chapter 7, your personal aspirations and motivations deserve careful thought. If the business does not align with your personal goals, you are not likely to succeed, and you certainly will not enjoy the journey. Overall, writing a business plan is an opportunity to assess if a good idea is also a good investment opportunity. It does so by providing evidence that your business can sell enough products or services to make an attractive profit.

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There is no one correct formula for preparing a business plan. Opportunities are so diverse in size as well as growth potential that no single plan will work in all situations. But at a minimum, every business plan should include the following three key elements:

1. A logical statement of a problem and its solution.
2. A significant amount of hard evidence.
3. Candor about the risks, gaps, and assumptions that might be proved wrong.

Figure 8-4 highlights the key elements of a business plan.

If you are the only person working in your small business, is there really a need for a business plan?

ELEMENTS OF A BUSINESS PLAN	
Description of the Business	• the business idea • major products and services • ownership structure • strengths/weaknesses • long- and short-term goals
Industry and Competitor Analysis	• description of customers • location, number, and resources of customers • sales forecasts
Operations and Development Plan	• organization of the company • description of major operations • analysis of resources needed • human resource plans
Marketing Plan	• description of major marketing activities • description of resources needed • schedule of marketing activities
Financial Plan	• start-up costs • short- and long-term financial needs • sources of financing • budgets and financial statements

Why are each of these elements important when planning a new business?

FIGURE 8-4
Elements of a Business Plan

For most entrepreneurs, the issue is not whether to plan but when and how to engage in effective planning, given the situation. Many small business owners may not prepare a plan until they are required to do so. We will examine deciding when to plan in the next section.

An entrepreneur must choose the form that the planning will take. Preparing a plan requires time and money, two resources that are always in short supply. The entrepreneur has two basic choices when it comes to writing a business plan: the short plan or the comprehensive plan.

- *The short plan*: A short plan is an abbreviated form of the traditional business plan that addresses only the most important issues in a firm's success, including the following:
  - The problem that needs to be solved for customers
  - The business strategy that will be used to solve the *value proposition*
  - The business model (described in the next section)
  - Measures used to gauge success
  - Milestones to be met
  - The tasks and responsibilities of the management team

  A short plan can also be used when trying to attract investors to the business. Although some investors will want to read a comprehensive business plan before deciding about the investment, others will want to see an abbreviated presentation to learn whether the business idea sparks their interest.

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- *The comprehensive plan*: When entrepreneurs and investors speak of a business plan, they are usually referring to a comprehensive plan, a complete business plan that provides an in-depth analysis of the critical factors that will determine a firm's success or failure, along with the underlying assumptions. Such a plan is especially beneficial when you are facing significant change in the business or the external environment (such as changing demographics, new legislation, or developing industry trends). It can also be helpful in explaining a complex business situation to investors.

As we discuss business plans, it is also useful to understand what a business model is. The term **business model** has become a popular phrase in business, especially among entrepreneurs and their investors. Simply stated, a business model explains in a systematic and clear way how a business will generate profits and cash flows. As such, it measures the anticipated financial outcomes of management's strategic decisions and activities that determine a company's profits and cash flows. An entrepreneur must continually be anticipating what can go wrong with the firm's business model and what can be done if it does.

Once you have an idea of your business model, you can proceed to look at whether you should also be providing a business plan.

CHECKPOINT
What are the key elements of a business plan?

LO 8.2.2

THE BUSINESS PLAN AS A TOOL

Using a business plan as a communication and evaluation tool

A business plan can be a helpful tool to use with two important groups: company insiders, who can use it for direction, and outsiders, who may help the company achieve its goals. Figure 8-5 provides an overview of those who might have an interest in a business plan for a proposed venture.

Company insiders are the internal users of the plan: the entrepreneur, the new company's management, and its employees. The business plan provides a framework that helps the entrepreneur and the management team focus on important issues and activities for the new venture. And it helps the entrepreneur communicate his or her vision to current and prospective employees of the company. The business plan can also be helpful with outsiders. To make the company successful, the entrepreneur must convince outsiders—potential customers, suppliers, lenders, and investors—to partner with the company. Why should they do business with your start-up, rather than with an established company? They need evidence that you will be around in the future.

Consider that a lender or other investor might demand to see a business plan before investing in your venture. Wouldn't you require the same before investing your personal savings or, even more important, your family's savings?

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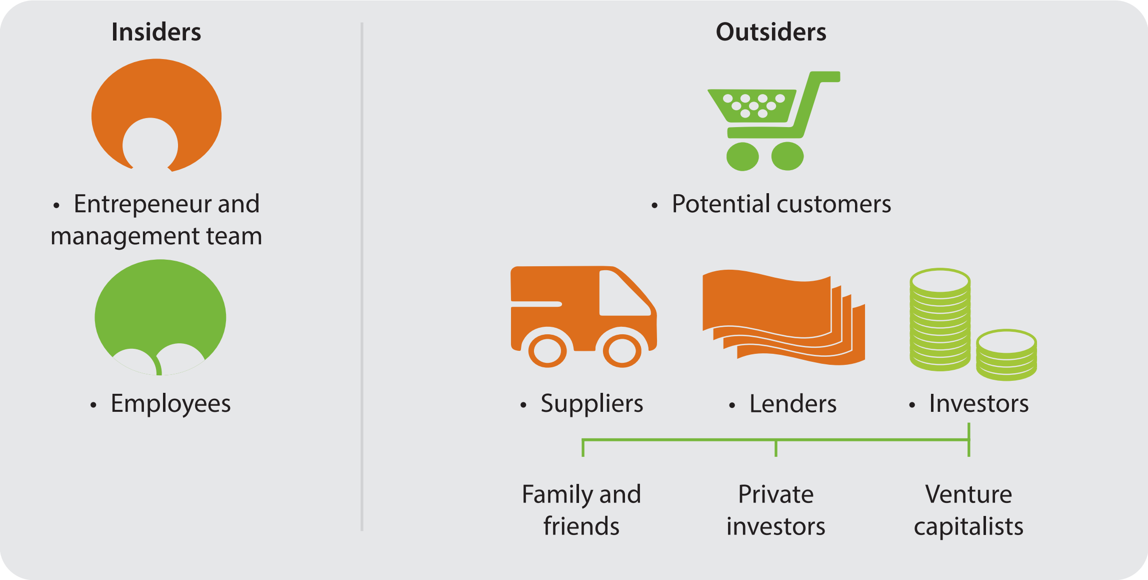

Who else might benefit from a business plan?

FIGURE 8-5
Potential Users of a Business Plan

Using a business plan as an assessment and evaluation tool

An entrepreneur must find the right balance between planning and becoming operational. No matter how well your plan has been thought out, unexpected events will happen. One of the key attributes of a successful entrepreneurial team is adaptability, regardless of what the business plan says to do.

The benefits of having a business plan can depend on the circumstances surrounding the start-up.

- For some start-ups, the environment is too turbulent for extensive planning to be beneficial. Entrepreneurs in new fields may find that there is too much uncertainty and too little good information to allow them to write a comprehensive plan. In this case, an entrepreneur's ability to adapt may be more important than a careful plan.
- Planning may pose a problem when the timing of the opportunity is a critical factor. Becoming operational as quickly as possible may have to take priority over in-depth planning. Do not, however, use timing as an easy excuse not to write a business plan!
- A business may be so constrained by a shortage of capital that planning is not an option. Planning may not make sense for some companies.

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Clearly, there are times when writing a carefully documented business plan is not needed, especially if you are the only person working in the business. More often, however, entrepreneurs resist writing a business plan because they lack the discipline to do so.

If you want to capture the full potential of an opportunity and make a difference in lives, planning is the rule, not the exception. But building an exceptional company requires thoughtful planning and then execution. Deciding what you want the business to be and to accomplish is vital and deserves considerable thought. Above all, plan with intention, which comes from having to justify your beliefs and assumptions about your start-up.

FYI

Bankers and other lenders want to see a written business plan before considering making a loan. Looking at the business plan can help a potential lender determine if the owner really understands the business and is committed to its success.

CHECKPOINT

How is the business plan an effective tool for small businesses?

Why would investors want to see a written business plan?

LO 8.2.3

FINANCING A START-UP AND PITCHING TO INVESTORS

A new business with a good product or service may run out of money before it can become profitable. Several years of operation are required before most new businesses earn a profit. Finding adequate financing is a key step in starting and running a new business.

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Types of Financing

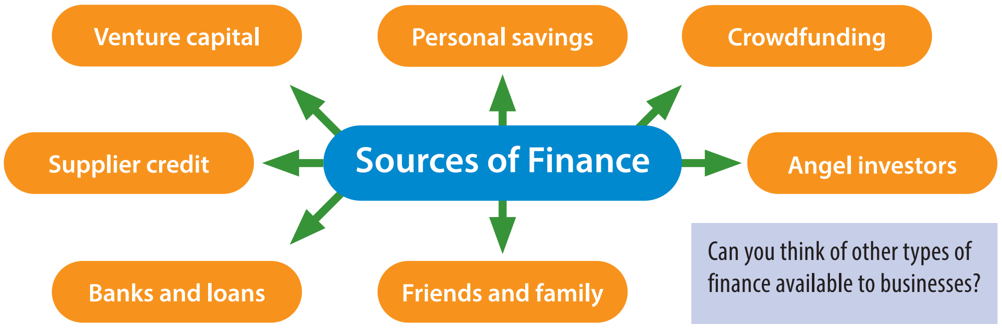
Three types of financing must be considered:

- *Start-up financing* is the amount of money needed to open the business. It includes the cost of buildings, equipment, inventory (products or raw materials on hand), supplies, licenses, and the like.
- *Short-term financing* is the money needed to pay for the current operating activities of a business. Short-term financing is obtained for a period of less than a year and often for one or two months.
- *Long-term financing* is money needed for the main resources of a business (such as land, buildings, and equipment) that will last for many years. These resources usually require large amounts of money and will be paid over many years.

Sources of Financing

Most new businesses start on relatively little funds. Finding the needed money may be the most difficult part of starting a business. The money required to start and operate a new business usually comes from a mixture of owner-supplied and borrowed funds, each with its own benefits and drawbacks. Some of the main sources of finance available to businesses are illustrated in Figure 8-6 and outlined below:

FIGURE 8-6
Sources of Finance Available to Businesses



- *Personal savings*: Many small businesses, particularly those established by a single individual, are started using personal savings. However, the source of owner-supplied money depends on the ownership structure. In a proprietorship, one person will supply the money. In most partnerships, each partner will be expected to contribute. A corporation is owned and financed by the shareholders.
- *Friends and family*: A traditional source of funding for many small businesses is the owner's network of friends and family. When accepting money from your own personal connections and relations, it is important to ensure the terms are clear to both parties. For example, understanding whether the money is a gift or a loan, and if so, when it is expected to be repaid, and what will happen if the business fails.
- *Banks and loans*: Borrowed funds are obtained through loans from banks and other financial institutions. Banks and other lenders may offer less favorable terms than friends and family. However, benefits include the banking infrastructure and support services, and potentially larger loan values for successful applicants.
- *Crowdfunding*: An increasingly popular choice of funding for new ventures is crowdfunding, in which the general public are invited to donate or invest in the business, in exchange for exclusive perks or early access to the products or services. Crowdfunding can be a great way to generate publicity and build a community of future customers. Equally, the company must show a commitment toward meeting the expectations of the public supporters.

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- *Angel investors*: Traditionally, high-tech firms have been more likely to obtain funding from outside sources such as angel investors. Angel Investors are business people, often existing entrepreneurs, who have already been successful and are willing to make a cash injection into a fledgling business in exchange for a stake in the company. Oqal is a non-profit group established in 2011 as the first group of individual investors (Angel Investors) in the Kingdom of Saudi Arabia (https://oqal.org/). The Angel Investor Network (Sirb) provides another financial channel for SMEs (http://sirb.sa/).
- *Venture capital*: **Venture capital** is money provided by investors to finance new products and businesses that have a good chance of being very profitable. Today, a thriving Saudi venture capital market indicates the importance being placed on new businesses as good investment opportunities. The government established Saudi Venture Capital (SVC) with the aim of stimulating the financing of start-ups, through a SAR 2.8 billion investment in 2021. Regardless of sector, eligible new businesses could receive a contribution of up to 65% of the total fund via SVC.
- *Supplier credit*: Often companies that sell equipment, materials, or inventory to a business will offer credit if the business does not have financial problems. While this can be a very useful option to have, a new business owner should be careful about accepting credit. The owner must take into account the cost of the credit and when payments are due.

Other Financial Resources and Support

There are many additional financing resources for Saudi entrepreneurs. Monsha'at (discussed in Chapter 7) provides a range of financing solutions for small businesses, including the venture investment initiative, the finance guarantee program (Kafala), and a funding awareness program. The Tamweel funding gate platform had facilitated loans of SAR 12.3 billion by Q1 2022, while the Indirect Lending Initiative had enable low-cost loans of SAR 2.5 billion (Monsha'at Quarterly Report Q1 2022). Many incubations provide funding opportunities.

Pitching to Investors

In addition to having a written business plan, an entrepreneur seeking capital from investors may be asked to give an oral presentation to the investors, or what is called a **pitch**. This is not the time to present the entire business plan but rather to spark the investors' interest in the business. Frequently, the entrepreneur is given 15 to 20 minutes to present, followed by about the same amount of time for questions and answers.

For an entrepreneur to successfully secure investment, they must think like an investor. This means making the proposition attractive to those who will be giving up funds. Most entrepreneurs have difficulty putting their story together from an investor's perspective. They can speak elegantly about the product, the customer, and possibly the market. However, they lack the intuition and experience to present the opportunity in a way that lets the investor know if it's a good investment.

What investors want to know is relatively straightforward, as is the order in which they want to see the topics in the pitch. The essential topics that need to be covered are the same for most businesses. Figure 8-7 highlights key slides or points that should be included in a presentation.

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KEY SLIDES TO BE INCLUDED IN A PITCH PRESENTATION	
1	Identify the problem to be solved.
2	Introduce your solution to the problem.
3	Discuss your beginning traction for getting sales.
4	Identify the target market.
5	Explain the costs of collecting information in your target market.
6	Communicate the value proposition relative to competitors.
7	Describe the basics of the revenue model.
8	Provide financial projections, along with the assumptions.
9	Sell the team.
10	Identify your funding needs, and explain the use of the funds.
11	Describe possible exit strategies—how the investors may be able to cash out.
12	End on a high note—remind investors why your product/service/team is so great.

(Source: Caroline Cummings at Palo Alto Software)

Is it better to include too much or too little information in a pitch to investors?

FIGURE 8-7

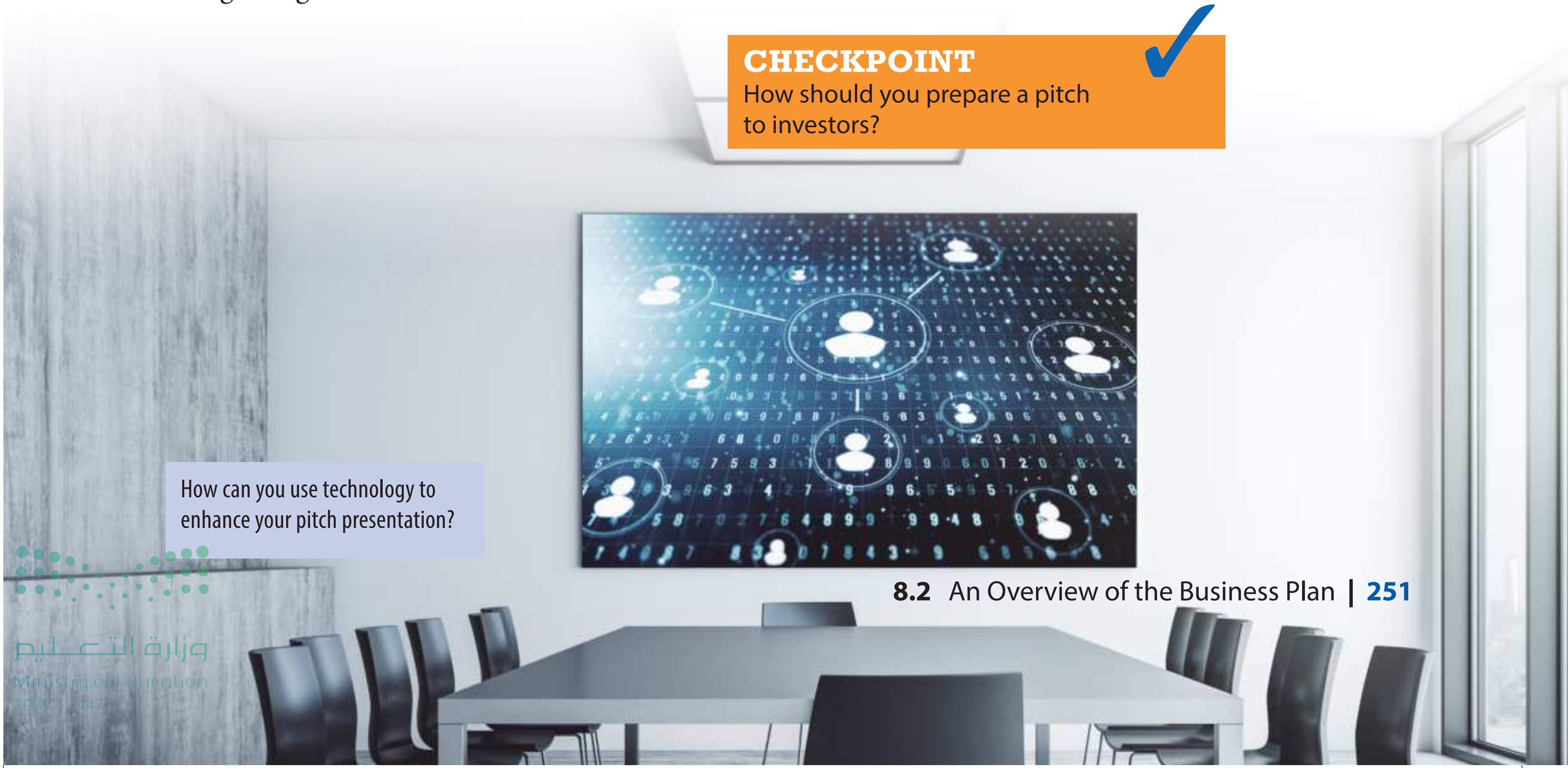
Key Slides to be Included in a Pitch Presentation

Increasingly, many new start-ups choose to present their introductory pitches in the form of a short video. With the costs of video production decreasing, this has become a relatively inexpensive option for many small businesses, with the benefit of being able to share a professional presentation via an email link. Moving beyond static presentation slides, there is a growing range of innovative ways to present information to investors, including interactive 3D models and immersive virtual reality demonstrations.

Remember, the purpose of the pitch is not to close the deal with the investors. Instead, the objective is to get to the next stage of due diligence. The pitch is not the end; it is only the beginning.

CHECKPOINT

How should you prepare a pitch to investors?



How can you use technology to enhance your pitch presentation?

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8.2 ASSESSMENT

Key Concepts

Determine the best answer.

1. Every business begins with a(n)
   a. customer
   b. profit
   c. idea
   d. invention

2. True or False. Most small business owners enjoy being part of a team.

3. True or False. A business plan does not have to be written because the business owner is well aware of the information in the plan.

4. Money needed for the important resources of a business (such as land, buildings, and equipment) that will last for many years is called
   a. start-up financing
   b. short-term financing
   c. long-term financing
   d. credit

5. Money provided by investors to finance new products and new businesses that have a good chance to be very profitable is known as
   a. shares
   b. private equity
   c. venture capital
   d. a small business loan

6. An oral or video presentation of the business idea to investors is known as a ________.

Make Academic Connections

7. **Technology** Locate an outline for a business plan on the Internet. Compare the sections of the plan you found with those in Figure 8-4. Develop a final outline using both resources. Write a two-sentence statement for each section of the outline describing why that section is important to a successful small business.

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8. **Math** Majid and Reham have formed a partnership to open a traditional Arabic coffee shop in Riyadh. Majid invests SAR 46,000 and Reham invests SAR 62,000. They get a micro start-up loan for SAR 37,000. They have SAR 18,000 of credit from the coffee bean machine supplier that sold them some of their equipment. Calculate the total amount of start-up financing available to the partnership. Make a pie chart that shows the percentage of total financing that is provided from each source. How much of the financing is owner supplied and how much is borrowed?

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Chapter 8

Assessment

Review Business Concepts

8.1 Developing Start-up Ideas

- New market ideas are concerned with products or services that exist but are not present in all markets. New technology ideas involve new or relatively new knowledge breakthroughs. New benefit ideas are based on new and improved products or services or better ways of performing old functions.
- Research shows that entrepreneurs claim prior work experience is the leading source of inspiration for start-up ideas. Personal experience leads many aspiring entrepreneurs to the start-up decision. Some entrepreneurs start their new ventures based on their hobbies and personal interests, which can add passion and energy to the enterprise.
- Personal contacts, trade shows, current trends, and trade publications are among other idea leads for start-ups.

8.2 An Overview of the Business Plan

- A business plan is a document that sets out the basic idea underlying a business and describes related start-up considerations. It should explain where the entrepreneur is presently, indicate where he or she wants to go, and outline how he or she proposes to get there.
- A business plan has three key elements: (1) a logical statement of a problem and its solution, (2) a significant amount of hard evidence, and (3) candor about the risks, gaps, and assumptions that might be proved wrong.
- Two important groups are users of business plans: company insiders, who use the plan as a framework to focus on important issues and activities, and outsiders, who use it to determine whether they will partner with the firm.
- A range of sources of financing are available to new businesses, including personal savings, friends and family, bank loans, crowdfunding, angel investors, venture capital, and supplier credit. Each option has its own advantages and disadvantages.
- Frequently, an entrepreneur is given 15 to 20 minutes to make a presentation to spark investor interest in the new business. What most investors want to know is relatively straightforward, as is the order in which they want to see the topics in the pitch. Entrepreneurs must think like investors in order secure investment.

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Think Critically About Business

1. Do you think being an entrepreneur is a skill that can be learned or must you be born with that character trait? Give reasons for your answer.

2. If you were a banker reviewing a business plan to determine if you will provide financing, what information would be most important in determining if you would support the small business or not?.

3. What are the advantages and disadvantages of hiring another, more experienced person to develop and write the business plan for the owner of a new business?

4. Suppose that you are pitching an innovative and high-tech new product idea to investors. Explain how you might integrate technology into your pitch in order to highlight your expertise in this field.

5. Abdullah needs money to launch his start-up. Suggest some of the options available to him to secure the funds he needs.

6. Explain what is meant by opportunity recognition, using an example to illustrate your answer.

7. "The most successful start-ups stem from original ideas that no-one else had already thought of." Do you agree with this statement? Give reasons for your answer.

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Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
8.	Business Plan		**a.** Identification of potential new products or services that may lead to promising businesses.
9.	New Benefit Ideas		**b.** Refocusing a start-up as it develops or completely recreating it if the initial concept turns out to be seriously flawed.
10.	New Market Ideas		**c.** New business ventures created "from scratch."
11.	New Technology Ideas		**d.** Explains in a systematic and clear way how a business will generate profits and cash flows.
12.	Opportunity Recognition		**e.** Start-up ideas centered around providing customers with new or improved products and services or better ways of performing old functions.
13.	Pitch		**f.** Start-up ideas centered around providing customers with an existing product or service not available in their market.
14.	Pivot		**g.** An oral or video presentation of the business idea to investors.
15.	Business Model		**h.** Start-up ideas involving new or relatively new technology, centered around providing customers with a new product or service.
16.	Start-ups		**i.** A document that outlines the basic concept underlying a business and describes how that concept will be realized.
17.	Venture Capital		**j.** Money provided by investors to finance new products and new businesses that have a good chance to be very profitable.

Make Academic Connections

18. **Technology** Look at some of the key technological advances over the last 10 years. With reference to the types of ideas outlined in Figure 8-1, explain some of the new benefits or applications that these technologies provide.

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19. **Geography** Choose three geographical regions around the world, each with a different climate and landscape. Suggest how the three types of ideas for new start-ups could be applied to the needs of markets in these different environments.

Make Your Case

Nora is setting up her own online marketing consulting business, using an innovative new app to help other businesses get instant support directly from their smartphones. Nora will need a considerable amount of money to develop her app. She is confident she could secure a loan from a bank or funds from investors. However, she also has friends and family who could help her out.

20. List some of the key advantages and disadvantages of borrowing money from friends and family, as opposed to getting a loan from a bank.

21. If Nora decides to borrow money from family rather than a bank, does she still need to bother creating a business plan? Why?

22. Which of the three types of ideas outlined in Figure 8-1 is Nora's start-up idea an example of?

Interactions and Connections

23. Survey at least 10 people in your community about their experiences as consumers with small businesses and large businesses. Ask them to describe the reasons they prefer to buy from small businesses and the reasons they prefer to buy from large businesses. Then ask them to describe the disadvantages of each. Summarize the results of your discussions in a chart or short written report.

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Chapter 9

Business and Technology

9.1 Business Applications of Technology

9.2 E-Business

9.3 Social Media in Business

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Business, Management & Administration

PLANNING A CAREER IN . . .

INFORMATION TECHNOLOGY

Almost every job in business is touched by technology. Technology supports core business functions such as communication through phones and e-mail, information storage and processing by computers, and reporting through printing, presentations, and conferencing. Information technology workers use a variety of skills and educational backgrounds to help businesses function. These skills can be used to support hardware, such as computer or communication networks. Technology workers can also support software usage by installing, programming, or training others to use computer programs and developing apps for smart devices.

Most schools offer a number of computer classes. Instruction is also available at computer training centers. Some employers will pay for employees to take computer and coding courses. Self-paced and online programs are also available. Information technology training may be achieved through a specialized vocational program or a college degree program. Knowledge of computer systems, computer languages, application software, and other technology is required for specialized positions.

Related Job Titles

- Information Systems Manager
- Computer Programmer
- Software Engineer
- Network Administrator
- Systems Analyst
- Computer Scientist
- Database Administrator
- App Developer

Analyze Career Opportunities in . . .

INFORMATION TECHNOLOGY

Use library and Internet resources to learn more about careers in information technology. Choose one of the job titles listed in the box and answer the following questions.

1. Identify the minimum educational requirements for the job. Explain other training or education that might be needed for advancement.
2. Is this a career that interests you? Describe a few things you could do to learn more about this career.

What it's like to work as a . . . Web Developer

"Should we use an animated intro? Will a banner heading be most appropriate? What functions are required to serve the needs of this new customer?" Safiya, a web developer in Dammam, is in a morning brainstorming session with her team. The team plans to have some ideas ready in time for a meeting with the customer tomorrow. Around the world, more than three billion people access the Internet for information, entertainment, and business activities. Web developers analyze, plan, design, implement, and support the websites of their organizations. Many businesses use outside vendors like Safiya's company to create and maintain their websites. Knowledge of multimedia software is a key requirement for web developers. Graphics, digital imagery, audio, and video are vital to the appeal and effectiveness of a website. Web developers are often involved with creating websites for online selling and other activities.

What about you? In what ways do you use computers and technology each day that might be the basis for a future career?

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9.1 Business Applications of Technology

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Learning Outcomes

Once you have completed this lesson, you should be able to:

9.1.1 Define a management information system (MIS) and describe its components.

9.1.2 Identify MIS applications in service industries.

Key Terms

Management Information System (MIS)

Computer-Assisted Instruction (CAI)

Focus on REAL LIFE

Nasir arrived on the first day of his new part-time job at a regional distribution company. This retailing company sells an array of products by mail, telephone orders, and the Internet.

During orientation, Nasir met the sales manager and learned that some of the firm's products were doing well and others were just sitting in the warehouse. After he got settled at his desk, Nasir's supervisor said, "Nasir, please outline a report with the sales results of the new products we have introduced over the past six months. Sara will help you get started."

Sara showed Nasir how to check the database for sales results. She suggested that he summarize the data on the spreadsheet program and prepare his report with word processing software. "Thanks, will you be around if I need more help?" Nasir asked. Sara said, "Sure, Nasir. Welcome to the team."

LO 9.1.1

MANAGEMENT INFORMATION SYSTEMS

Managers need information to make business decisions. A **management information system (MIS)** is a coordinated system of processing and reporting information in an organization. Computer systems and software are essential parts of management information systems.

A company may need a departmental budget that provides information on expected income and expenses for the next three months. Using an accounting program, past company data and future projections can be processed to create this budget. Budgets help with day-to-day decisions and planning for the future.

Components of an MIS

As shown in Figure 9-1, the four main components of an MIS are gathering data, analyzing data, storing data, and reporting results. These activities allow an organization to obtain needed information in four main categories—financial, production and inventory, marketing and sales, and human resources.

> **Life-Span Plan**
>
> List the technology that you currently use in your own life and then consider whether these examples have applications in business. Identify some of the benefits that advances in technology have brought to business operations and consider how you might utilize these in your own life-span plan.

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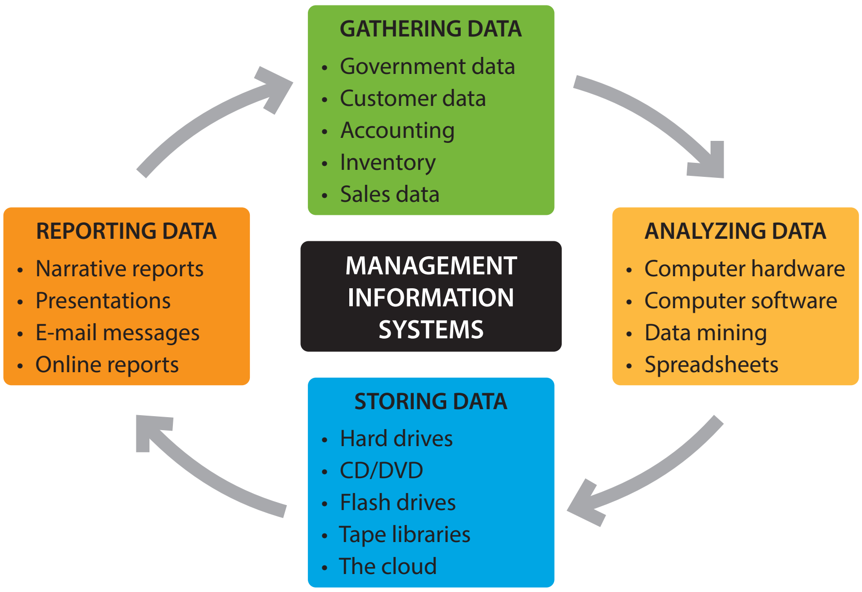

Why are these functions important for decision making and how are they interconnected?

FIGURE 9-1
The Main Components of Management Information Systems

1. *Financial information,* including budgets, sales reports, and financial statements.
2. *Production and inventory information,* including production summaries, lists of tools and supplies, and finished goods reports.
3. *Marketing and sales information,* including data on customer needs, current economic conditions, and actions of competitors.
4. *Human resources information,* including salaries, employee benefit data, and employee evaluations.

Data Sources

The information for an MIS comes from several sources:

- *External data sources* are outside an organization. Financial institutions, government agencies, and customers are examples of external data sources.
- *Internal data sources* provide input from within the organization. Internal data includes accounting records, inventory information, and company sales figures. While gathering raw data may be an easy task, changing these facts and figures into meaningful information is the major goal of an MIS.

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The MIS in Action

What activities are involved in a management information system? How is needed information communicated to managers? The operation of the MIS involves the following steps:

1. Identify the information needs of the organization.
2. Obtain facts, figures, and other data.
3. Process, analyze, and organize data in a useful manner.
4. Distribute information reports to those who make decisions.
5. Update data files as needed.

Work as a TEAM

Websites for international business must be adapted to cultural factors in other countries. Design a website for doing business in another country. Consider the language, format, design, colors, graphics, and other factors.

CHECKPOINT

What are the four components of a management information system?

How do management information systems help to support a business?

LO 9.1.2

MIS IN SERVICE INDUSTRIES

Over 70% of workers in Saudi Arabia are employed in service industries (World Bank, 2020). The use of computer networks and systems in these organizations is extensive.

Public Service

Government agencies use computers to keep records. The Saudi General Authority for Statistics, for example, holds a wide range of government records, reports and statistics, many of which are available to access online. Agencies are always expanding their use of computers. Saudi citizens can easily access a range of e-government services via the Absher app. Schools and other agencies can transfer records easily when someone moves to another area of the country.

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Education

Computers have become vital teaching devices. Computers make it possible to train and test workers in a range of professions. Airline pilots use computerized simulators to learn and improve skills needed for flying new types of aircraft. **Computer-assisted instruction (CAI)** is the use of computers to help people learn or improve skills at their own pace. With CAI, students work at a speed that best serves their needs. The student does not have to go to a school for instruction. The student can learn at home on a computer network system connected to a central training location. The demand for computer and *information technology* (IT) training in the workplace continues to grow.

Can simulators be useful in other industries for training workers?

Healthcare

Computers are widely used in hospitals and other medical facilities. Uses range from keeping patient records to monitoring medications during surgery. Medical information can be found within seconds, which can save lives. Medical professionals are also able to see to the healthcare needs of people in rural areas without leaving the city. The use of *telemedicine* with video-conferencing equipment allows diagnosis by a doctor in a different location, followed by treatment provided by a local healthcare professional. Technology of this type helps to expand the availability of healthcare in remote areas of less-developed economies.

What are the benefits of using electronic systems for managing patients' records?

Financial Services

Paying bills online, checking credit reports, and selling stocks and bonds are just a few examples of computerized financial activities. Electronic banking and other financial services have enabled consumers to do business beyond usual banking hours. Each day, computers transfer billions of Riyals. Payments to workers, businesses, and government flow through local and global computer networks.

Most people are familiar with credit cards and debit cards. These plastic cards with a silicon chip are used to store information. The chip within the card stores such data as your current account balance and credit history. It may even store medical information for emergencies. Such cards can serve as personal record keepers for travel and other expenses. In addition, a smart card can be used to prove you paid for merchandise you want to exchange, to gain admittance to your place of work, or to unlock and start your car without keys.

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FYI

The use of smartphones and other wireless technology is sometimes called "m-commerce" (m for mobile). Various handheld devices are expanding and enhancing e-commerce activities. Instant messaging, stock trading, banking, online shopping, and sports video clips are most common.

CHECKPOINT
What service industries make extensive use of computers?

9.1 ASSESSMENT

Key Concepts

Determine the best answer.

1. Which of the following is not an example of an external data source?
   a. financial institutions
   b. government agencies
   c. the company's accounts
   d. customers

2. Which of the following is not one of the four main components of a management information system (MIS)?
   a. gathering data
   b. analyzing data
   c. storing data
   d. sharing data

3. Computer-assisted instruction provides:
   a. a way of paying bills online
   b. electronic inventory control
   c. healthcare to remote areas
   d. individualized training instruction

Make Academic Connections

4. **Visual Art** Create a visual presentation of a management information system for a specific information flow for a company of your choice. Use the space below to write your notes.

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9.2 E-Business

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Learning Outcomes

Once you have completed this lesson, you should be able to:

9.2.1 Define what e-business is and describe the fundamental models of e-business.

9.2.2 Explain what is meant by the Fourth Industrial Revolution and describe examples of disruptive technologies.

Key Terms

E-Business (or Electronic Business)

Outsourcing

Revenue Stream

Business-To-Business (B2B) Model

Business-To-Consumer (B2C) Model

Disruptive Technology

Fourth Industrial Revolution

Focus on REAL LIFE

Hasan runs a small local business repairing watches and replacing watch batteries. The business struggles to make a profit, as the footfall is not as high as Hasan had expected, despite the high rent and utility bills he pays on his workshop. Hasan regularly buys the parts and supplies he needs from online auction sites. Every now and then he sells back surplus or unneeded items online. Recently, he joked to his friend, "This week, I made a better profit selling old stock online than I did from the customers in the workshop. I'd be better off doing that full-time from the comfort of my own home!" His friend replied, "Well then, why don't you?"

This conversation has got Hasan thinking. There are literally millions of potential customers all around the world and he could market his products to them directly from his smartphone. Perhaps it's time for a new strategy focused on e-business.

LO 9.2.1

DEFINING E-BUSINESS AND ITS BUSINESS MODELS

E-business (or electronic business) can be defined as the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs through the facilities available on the Internet. Sometimes people use the term e-commerce instead of e-business. In a strict sense, e-business relates to all business activities and practices conducted on the Internet by an individual firm or industry. On the other hand, e-commerce is a part of e-business and usually refers only to buying and selling activities conducted online. This chapter generally uses the term e-business because of its broader definition and scope.

Organizing E-Business Resources

To be organized, a business must combine human, material, informational, and financial resources. This is true of e-business, too (see Figure 9-2), but in this case, the resources may be more specialized than in a typical business. For example, people who can design, create, and maintain websites are only a fraction of the specialized human resources required by e-businesses. Material resources must include specialized computers, sophisticated equipment and software, and high-speed Internet connections. Computer programs that track the number

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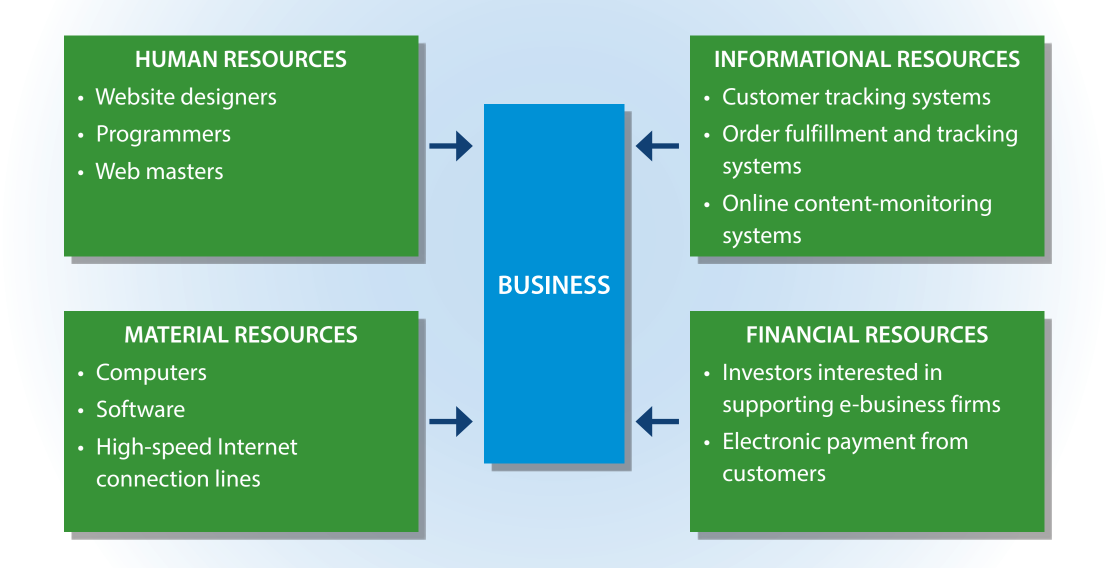
Does the term "e-business" just refer to online shopping?

of customers who view a firm's website are generally among the specialized informational resources required. Financial resources are the money required to start and maintain the firm and allow it to grow.

In an effort to reduce the cost of specialized resources that are used in e-business, many firms have turned to outsourcing. **Outsourcing** is the removing work from one company and sending it to another company that can complete it at a lower cost. For example, a firm that needs computer programmers and specialized software to complete a project may turn to an outside firm located in another part of Saudi Arabia, or collaborate with developers across the globe.



These resources might all need to be specialized for use in e-business.

FIGURE 9-2
Combining E-Business Resources

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Creating E-Business Profit and Increasing Sales Revenue

E-business activities can help companies to increase profits, either by increasing sales revenue or reducing expenses. Each source of sales revenue flowing into a firm is referred to as a **revenue stream**. Today, there are many different ways to use technology to increase sales revenue. For example, selling merchandise on the Internet to a global customer base, 24 hours a day, seven days a week. The goal is to find new customers and generate new sales so that total revenues are increased.

Intelligent information systems can help to generate sales revenue for online retailers. Such systems store information about each customer's purchases, along with a variety of other information about the buyer's preferences. Using this information, the system can assist the customer the next time he or she visits the website. For example, if the customer has bought household electronic gadgets in the past, the system might suggest similar or complementary electronic products. Many Internet companies generate revenue from commissions earned from sellers of products linked to the site.

Although some customers may not make a purchase online, the existence of the firm's website may lead to increased sales in the firm's physical stores. For example, a car manufacturer's website can provide basic comparative information for shoppers so that they are better prepared for their visit to a showroom.

E-business revenue streams are also created by advertising placed on web pages and by subscription fees charged for access to online services and content. For example, many sites make some of their online content free for anyone who visits the site, while more detailed information is available only by paid subscription.

Reducing expenses is the second major way in which e-businesses can help to increase profitability. Providing online access to information that customers want can reduce the cost of dealing with customers. As standard, many companies maintain an extensive website where potential customers can learn more about products and services, and where current customers can access personal account information, send questions to customer service, and purchase additional products or services. As a result, these companies do not have to maintain as many physical store locations.

Models of E-Business

Each of the models discussed in the following text represents a primary e-business model. Regardless of the type of business model, planning often depends on whether the e-business is a new firm or an existing firm adding an online presence (see Figure 9-3). It also helps to keep in mind that in order to generate sales revenues and profits, a business—especially an e-business—must meet the needs of its customers.

How can e-business help a company increase its profits?

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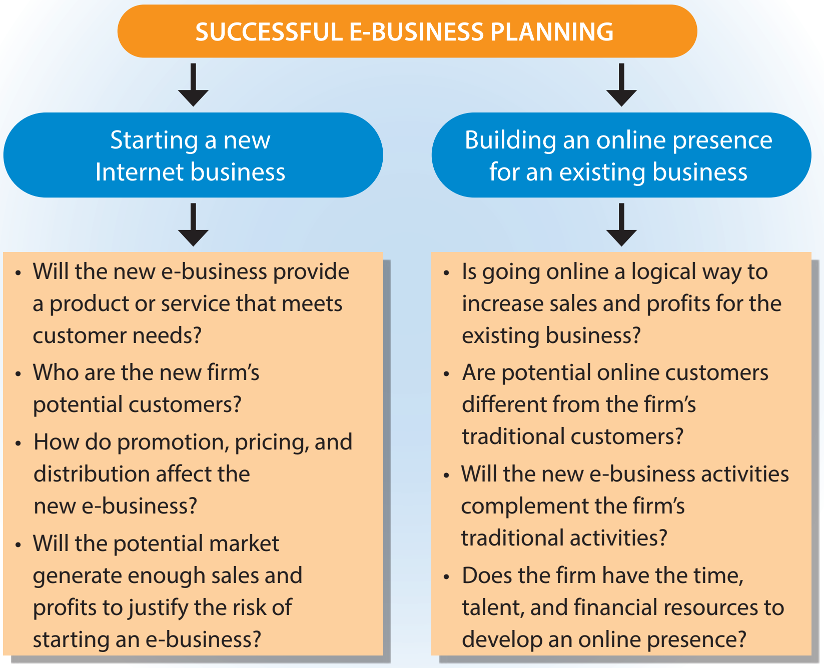
The approach taken to creating an e-business plan will depend on whether you are establishing a new Internet business or adding an online component to an existing business.



Is there any advantage to creating a new online business compared to building an online presence for an existing one?

FIGURE 9-3
Planning for a New Internet Business or Building an Online Presence for an Existing Business

Business-to-Business (B2B) Model

Some firms use the Internet mainly to conduct business with other businesses. These firms are generally referred to as having a **business-to-business (B2B) model**. There are two main types of B2B firm. These are:

1. *A firm that sells directly to other businesses*. For example, a business might order computers for its employees directly from the company that makes them. By buying directly from another business, the extra costs of retailers can be avoided.

2. *Linking suppliers to businesses online*. Suppliers can use the Internet to find business customers. For example, automobile manufacturers have developed a B2B model to link thousands of suppliers that sell the automobile makers parts, supplies, and raw materials worth millions of Riyals each year.

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Business-to-Consumer (B2C) Model

In contrast with the B2B model, many businesses are focused on individual consumers. These companies are referred to as having a **business-to-consumer (B2C)** model. In a B2C situation, understanding how consumers behave online is critical to a firm's success. Typically, a business firm that uses a B2C model must answer the following questions:

- Will consumers use websites to simplify and speed up comparison shopping?
- Will consumers purchase services and products online or end up buying at a traditional retail store?
- What sorts of products and services are best suited for online consumer shopping?
- Are consumers willing to wait for purchases to be delivered, will they pay for next-day delivery, or will they collect online purchases from a convenient pick-up site?

In addition to providing round-the-clock global access to all kinds of products and services, B2C firms often attempt to build long-term relationships with their customers. Often, firms will make a special effort to make sure that the customer is satisfied and that problems, if any, are solved quickly. Most B2C firms, for example, have liberal return policies and often pay for returning merchandise that the customer does not like. Specialized software can also help build good customer relationships.

Tracking the decisions and buying preferences as customers navigate a website, for instance, helps management to make well-informed decisions about how best to serve online customers. By tracking and analyzing customer data, an online travel company, for instance, can provide individualized service to its customers. Although a "little special attention" may increase the cost of doing business for a B2C firm, the customer's repeated purchases will repay the investment many times over.

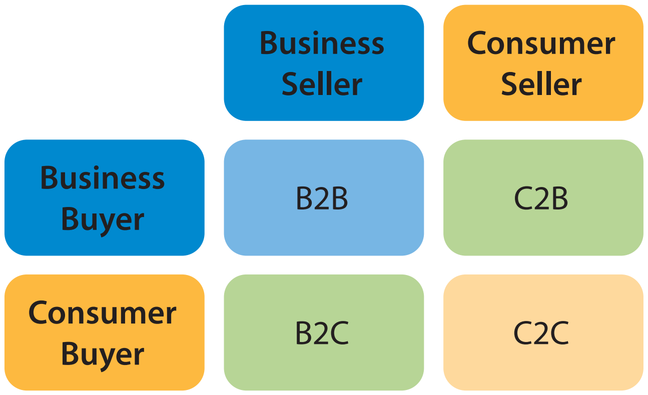
Other models

Today, B2B and B2C models are the most popular business models for e-business. And yet, there are other business models that perform specialized e-business activities to generate revenues.

With *consumer-to-business* (C2B), consumers originate online transactions through price offers to businesses. An example of C2B might be a blogger sharing an affiliate link that directs readers to buy something. The affiliate link means that the blogger will receive credit or payment for every reader who uses the link.

Consumer-to-consumer (C2C) is an increasingly popular model. In the long economic tradition of bartering and auctions, buying and selling among consumers is growing in cyberspace. The ease and speed of transactions among online parties is encouraging more C2C exchanges.

The online economic activities between businesses (B) and consumers (C) can be represented in a matrix (Figure 9-4).



How does the Internet help each of these e-commerce models operate efficiently?

FIGURE 9-4
E-Commerce Matrix

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Business Insight

Green Technology Supports Saudi Businesses

The Saudi Green Initiative (SGI) was set up under the patronage of His Royal Highness, the Crown Prince Mohammed bin Salman, as part of the wider Saudi Vision 2030 program. His Royal Highness has said: "Climate action will enhance competitiveness, spark innovation, and create millions of jobs." For example, the initiative has set a target to reduce carbon emissions by 278 mtpa by 2030, through a range of actions, including: "implementing energy efficiency programs," "developing carbon capture technology," "increasing public transportation," and "growing its renewable energy capacity." Each of these areas relies upon technological innovations to find new ways of tackling the challenge, and each requires people to put the plans in action.

Indeed, going green is not just good news for the environment, it can make good business sense too. Through investing in green technologies and sustainable practices, Saudi businesses can make long-term economic savings, reduce waste in their own spheres, and hence set themselves up for future success for generations to come.

THE LINE is part of the exciting project NEOM, led by HRH Prince Mohammed bin Salman. It brings together the expertise and knowledge of the most forward-thinking minds in architecture, engineering, and construction. THE LINE will eventually house 9 million people and will be built on a footprint of just 34 square kilometers. It will only be 200 meters wide but 170 kilometers long, making the idea of vertical living a reality.

The whole environment of THE LINE has been designed to provide an optimal balance of sunlight, shade, and natural ventilation. It will have a zero-carbon initiative with 100% renewable energy which, together with the many open spaces, will provide clean air for everyone. Indeed, the community will live at one with nature.

There will be no cars or emissions which means no pollution or traffic accidents. A high-speed rail network, with end-to-end transit of only 20 minutes, will provide an efficient public transport network that is powered by artificial intelligence. People's health and wellbeing will be prioritized which, with a world-class preventative health care system, means people will live longer.

THE LINE will be the vertical garden city of the future, improving people's work-life balance, providing exciting business opportunities, and allowing its residents to live in harmony with nature.

Think Critically

1. Explain why it makes good business sense for companies to adopt green practices.
2. Research green technology initiatives that are being enacted as a result of Saudi Vision 2030. Describe how they might provide benefits or opportunities to Saudi businesses.

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LO 9.2.2

THE FUTURE OF E-BUSINESS AND THE FOURTH INDUSTRIAL REVOLUTION

Disruptive technologies are novel innovations that challenge the existing status quo through the introduction of new, alternative approaches. In business, this can apply to everything from marketing strategies to manufacturing processes and distribution. Even long-established companies must adapt their practices in response to the arrival of new technologies. These disruptive technologies present an opportunity for young aspiring business people to become the entrepreneurs of tomorrow.

In every sector of industry, a range of disruptive technologies are shaking up accepted business practices and processes, from big data to nano-technology. Over the last decade, drones have found a variety of applications from aerial survey work to trials to deliver products to customers' front doors! The gaming industry and virtual or augmented reality are both likely to achieve major growth over the next decade.

This rapid development of new technologies in the 21^{st} century is known as the **Fourth Industrial Revolution**. Saudi Arabia is playing an active role in the Fourth Industrial Revolution, by supporting technological industries and innovation as part of the wider Saudi Vision 2030 goals. The Saudi Space commission is one example of a forward-looking initiative, that "aims to inspire generations in space sciences, develop capabilities, empower competencies, and prepare national cadres that will shape the future of the space sector."

Robotics

For many years, robotics have been deployed to carry out routine or repetitive tasks, such as factory assembly line work. Today's robots are extremely advanced and can handle more complex tasks. They can see, hear, smell, and feel. These computerized workers can perform in such dangerous settings as outer space, underwater, or underground. Newer robots are being developed that can roll, walk, run, and communicate with people. A growing subfield is 'microbotics' – tiny robots that could have endless applications, including being inserted into the body to perform precise operations.

AI and Expert Systems

Artificial intelligence (AI) is software that enables computers to reason, learn, and make decisions. It uses logical methods similar to the methods humans use to solve complex cognitive challenges. Computer programs that help people solve technical problems are called expert systems. They are now available for medical services, financial planning, and legal matters. Expert systems provide intelligent answers are based on the knowledge of human specialists. 'Chatbots' are regularly employed on websites to help consumers find what they are looking for.

Entrepreneurial Success

Tamara is a leading payments system in MENA. It was founded in 2020 by three entrepreneurs, Abdulmajeed Al-Sukhan, Turki Bin Zarah, and Abdual Mohsen Al-Babtain. Tamara's mission is "to empower people to shop through an honest, transparent, and inclusive financial solution." It follows the "buy now pay later" business model, and offers an alternative to credit cards or cash on delivery.

Search for more information about the success story of this start-up, the reason for its establishment, and how it became the first company to obtain a permit from the Central Bank of Saudi Arabia in the field of modern financial technologies.

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What types of businesses might use computer-aided design?

Computer-Aided Design

Computer-aided design (CAD) is the use of technology to create product styles and designs. CAD allows businesses to try different sizes, shapes, and materials for a new machine, automobile, or food package. This process can be used to experiment with many variations before spending time and money building a model or going into production. As noted CAD systems are used in conjunction with 3D printers to create models and final products, lowering the cost of customized manufacturing and the development of prototypes.

An example of CAD is the use of 3D printers. Thanks to 3D printers, it's possible for small businesses to design and build products from their own offices or homes, without needing expensive factory equipment. What's more, items can even be customized to the individual customer – all through an automated online system.

Telecommuting

Telecommuting involves the activities of a worker using a computer at home to do a job. Telecommuting saves travel time and costs, and results in less traffic, noise, and air pollution. Many people around the world will be familiar with the idea of working from home, especially in the years since the COVID-19 pandemic. Technology such as virtual teams, online teleconferencing software, and cloud computing have made this possible.

Internet Growth Potential

While nobody can truly predict exactly what the next breakthrough technology will be, we can be sure that it is just around the corner. The Internet will continue to play a significant role in business. As of June 2022, over 58% of the global population uses social media – that's around 4.62 billion people! (Datareportal, 2022) While that is a huge number, there is still much more growth opportunity. The number of Internet users in developing countries is expected to increase dramatically. Experts also predict that the number of companies using e-business will continue to rise. Firms that adapt existing business models to an online environment will continue to dominate development.

CHECKPOINT
What is the Fourth Industrial Revolution?

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9.2 ASSESSMENT

Key Concepts

Determine the best answer.

1. True or False. Insourcing is the removing work from one company and sending it to another company that can complete it at a lower cost.

2. True or False. Internet use is expected to decline rapidly over the next decade.

3. When a packaged food producer sells items to a restaurant, this is considered to be ___________
   a. B2C
   b. B2B
   c. C2B
   d. C2C

Make Academic Connections

4. **Read** Find a news article that relates to e-business. Read the article and outline the major concepts presented in the article using bullet points. Include a properly formatted citation for your source. Possible sources include printed and online versions of newspapers or magazines. You should also consider independent online sources that produce original content.

5. **Culture** Research other cultures to determine how people in these societies might react to various aspects of e-business.

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9.3 Social Media in Business

Link to digital lesson

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Learning Outcomes

Once you have completed this lesson, you should be able to:

9.3.1 Define social media, understand why it is important to business and describe some of the tools available for businesses.

9.3.2 Describe how businesses can achieve their objectives through social media.

Key Terms

Social Media
Social Media Sites
Blog
Media Sharing Sites
Podcasts
Social Games
Social Media Communities
Forum
Wiki
Social Media Community Manager
Social Media Marketing
Crowdsourcing

Focus on REAL LIFE

Maha was annoyed at having to wait for over an hour on the phone to speak with a representative from a utilities provider. In fact, she was so frustrated that she posted angrily about the experience on social media. To her surprise, a representative from the company, Ali, quickly tweeted back to ask for Maha's contact details so that they could solve the problem.

It's Ali's job to monitor social media channels and respond to feedback from dissatisfied customers. He also uses social media to proactively engage with customers, share promotions and special offers, and check for the latest consumer trends. Ali offered Maha a discount off her next bill, turning an unhappy customer into a happy one. Thanks to the swift reply from Ali, Maha posted on social media again, this time praising the company's response.

LO 9.3.1

SOCIAL MEDIA TOOLS FOR BUSINESS

There are many definitions of social media because it is still developing and continually changing. For the purpose of business, **social media** represents the online interactions that allow people and businesses to communicate and share ideas, personal information, and information about products and services. Simply put, social media is about people. It is about a culture of participation, meaning that people can now discuss, vote, create, connect, and advocate much easier than ever before, using Internet-based technologies.

How has Social Media Changed the Business Environment?

Social media has completely changed the business environment. Just the sheer number of people using social media makes using social media a top priority for many companies. By using social media, companies can share information about their products and services and improve customer service. Now many companies, large and small, are using social media to learn about customers' likes and dislikes, seek public input about products and marketing, and promote particular products.

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The fact that so many people are actively sharing information about themselves and their likes and dislikes online for all to see was a driving force for many companies to develop a social media presence. Unlike social media, traditional marketing messages were top-down (that is, showing all prospective customers the highest-quality product), because companies used television, newspapers, and magazine ads to promote their product to a large audience without any opportunity for feedback. With social media, customers can and do provide feedback. If people have bad experiences with a product or service, they tend to let the world know by writing about it on a blog, mentioning it on Facebook, or tweeting about it.

As the case of Maha at the start of this lesson highlights, companies can turn negative feedback on social media into a positive outcome. As a result of the company's attention to social media, it received tweeted compliments in addition to tweeted complaints. The bottom line: While companies no longer have much control over what is said about their products or services, they still often respond to negative comments about the company and its products or services made by their customers. Even if the company's response doesn't completely resolve the issue, customers appreciate the company's effort to improve customer service.

Do businesses really need to engage with social media?

Applying Social Media Tools in Business

For a business, part of what makes social media so challenging is the sheer number of ways to interact with other businesses and existing and potential customers. **Social media sites** allow companies to create and share information about their products and services via blogs, videos, and photos. Commercials can go viral on social media, especially when linked to major sporting events like the World Cup, for example. To build buzz for their sporting event commercials, some companies post them on social media content sites before the big game. For businesses selling to other businesses, social content sites can also include webinars and online promotional materials.

(1) Business Use of Blogs

For businesses, blogs have become one of the most widely used social media tools. A **blog** is a website that allows a company to share information in order to increase customers' knowledge about its products and services, as well as to build trust. Once a story or information is posted, customers can provide feedback through comments, which is one of the most important ways of creating a conversation with customers, not just as existing or potential customers, but as citizens.

Blogs are effective at developing better relationships with customers, attracting new customers, telling stories about the company's products or services, and providing an active forum for testing new ideas. For example, many online marketplaces use blogs to communicate with both buyers and sellers. These blog posts might profile online shops, highlight new fashion trends, teach do-it-yourself craft techniques, or showcase unusual and unique items for sale. By including information about webinars and promotional materials, blogs are also effective for businesses that are selling to other businesses.

(2) Photos, Videos, and Podcasts

In addition to blogs, another tool for social content is the use of **media sharing sites**, which allow users to upload photos, videos, and podcasts. Before participating in media sharing, managers and employees should consider the following three factors:

- Who will create the photos, videos, and podcasts that will be used?
- How will the content be distributed to interested businesses and consumers?
- How much will it cost to create and distribute the material?

How can businesses use podcasts to promote their products or services?

One increasingly popular form of media is photo sharing. Today, photo sharing provides a method for a company to tell a compelling story about its products or services through postings on either the company's website or a social media site.

Videos have also gained popularity because of their ability to tell stories. Entertainment companies, for example, now use YouTube as a way to showcase movie trailers. DIY and hardware stores have also posted great do-it-yourself videos on their YouTube channels. Companies know that YouTube and others sites are useful because they are already recognized by other businesses and consumers as a source of both entertainment and information.

Podcasts are digital audio or video files that people listen to or watch online on tablets, computers, smartphones, or other mobile devices. Podcasts can be compared to radio shows that are distributed through various means and not linked to a scheduled time period. The great thing about podcasts is that they are available for download at any time.

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(3) Social Media Ratings

Social media enables shoppers to access opinions, recommendations, and referrals from others who have bought a product or service. This type of information is available via a social media site and can include reviews and ratings.

Sites for reviews and ratings are based on the idea that consumers trust the opinions of others when it comes to purchasing products and services. According to Bazaarvoice, adding just one review results in a 10% increase in orders. That increase jumps to 25% when a product goes from zero to 30 reviews (Internet Retailer 2015). New user-rated directory sites have sprung up allowing consumers to rate local businesses or compare products and services. Consumer reviews are especially influential in certain purchase situations. Travel services and restaurants, for example, are an area where ratings make a difference in buying decisions. Knowing this, many hotel groups put the ratings of consumers who use rating websites directly on their websites so travelers can see what others say about each individual hotel. By examining the reviews, the hotel chain can get a good sense of its online reputation and identify specific areas for improvement.

(4) Social Games

Social games are another area of growth in social media. A **social game** is a real-time multiplayer activity in a virtual environment in which players can participate with others in an online community. One of the most important aspects of social media is entertainment. Games are also popular because people like the competition and social status they can earn through playing social games. For businesses that create games, it can be very profitable. For example, games often contain advertising from different companies and the sales of popular game-related merchandise can generate millions of Riyals of revenue. Still, rival game makers are feeling intense competitive pressure as players set aside old favorites to try new games and access different games via mobile apps. In fact, some companies are creating their own mobile game apps with social media links. For instance, a fast-food company might increase brand engagement through a mobile game app. While customers are playing the game, they are exposed to the company's logo and engaging with the brand. Customers can earn points that can be redeemed in one of the chain's stores.

(5) Social Media Communities

For a business, social media can be used to build a community. **Social media communities** are groups of people who share common interests and who want to engage in conversations about issues they consider important or interesting.

These electronic communities (often called networks) provide a method for people to use technology and the Internet to connect with people with similar interests. People that are part of the networks can also share information and even develop profiles. Individuals in a community can be called friends, fans, followers, or connections. Popular social networking sites include Facebook (the largest), LinkedIn (for professionals), Twitter, Google+, YouTube, Pinterest, and many others. To see how many businesses use the top seven social media community sites, see Figure 9-5.

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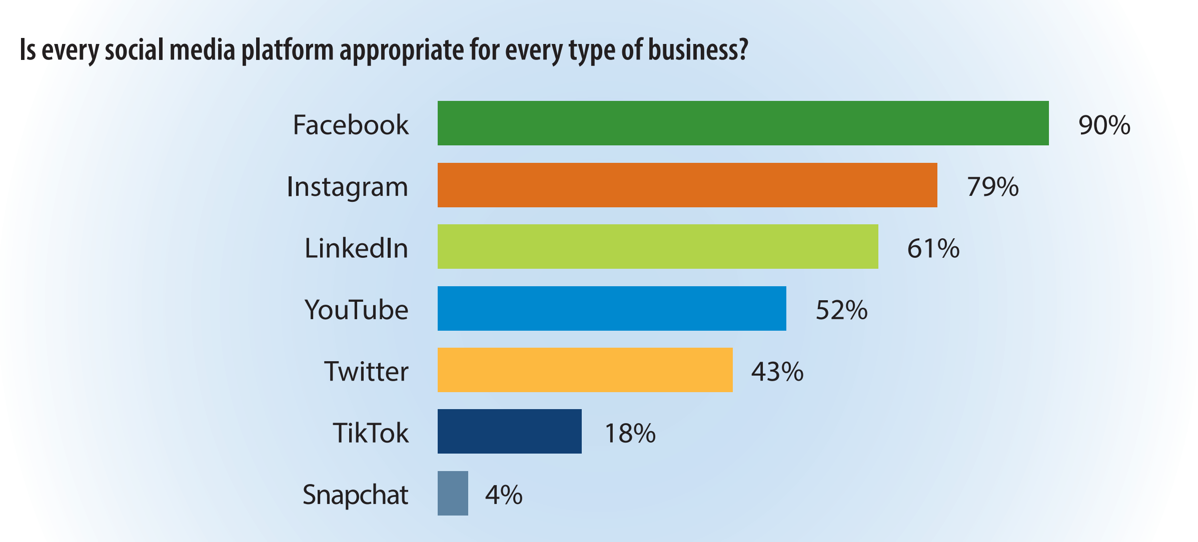

Source: Michael A. Stelzner, "*2022 Social Media Marketing Industry Report*", The Social Media Examiner website (Accessed September 10, 2022)

FIGURE 9-5

The Top Social Media Networking Sites Used by Businesses

There are social communities for every interest and lifestyle. Different types of social communities include forums and wikis. A **forum** is an interactive version of a community bulletin board that focuses on threaded discussions. These are particularly popular with people who share a common interest such as protecting animals or health issues or the latest business trends. Another community based on social media is a wiki. A **wiki** is a collaborative online working space that enables members to contribute content that can be shared with other people. With wikis, members of the community are the editors and gatekeepers ensuring that the content is correct and updated.

Today, many companies and non-profit organizations are using social media to build communities in order to achieve important objectives. Non-profit organizations also use social media to promote and fund their programs. For a business, developing social media communities is a way to interact with customers. The largest companies now have a team of professionals to develop and monitor their social media activities led by a social media community manager. A **social media community manager** is a high-level executive who is responsible for all of a company's social media activities.

CHECKPOINT
What are the main social media tools available to businesses?

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LO 9.3.2

ACHIEVING BUSINESS OBJECTIVES THROUGH SOCIAL MEDIA

Although the popularity of social media is a recent phenomenon, many businesses are already using it to achieve important objectives. Some of these goals are long term— such as building brand awareness and brand reputation—while others are more short term—such as increasing website traffic or generating sales leads. Regardless of how social media is used, there are a lot of business opportunities. In this section, we explore a few ways that companies have used social media effectively to achieve business objectives (see Figure 9-6).

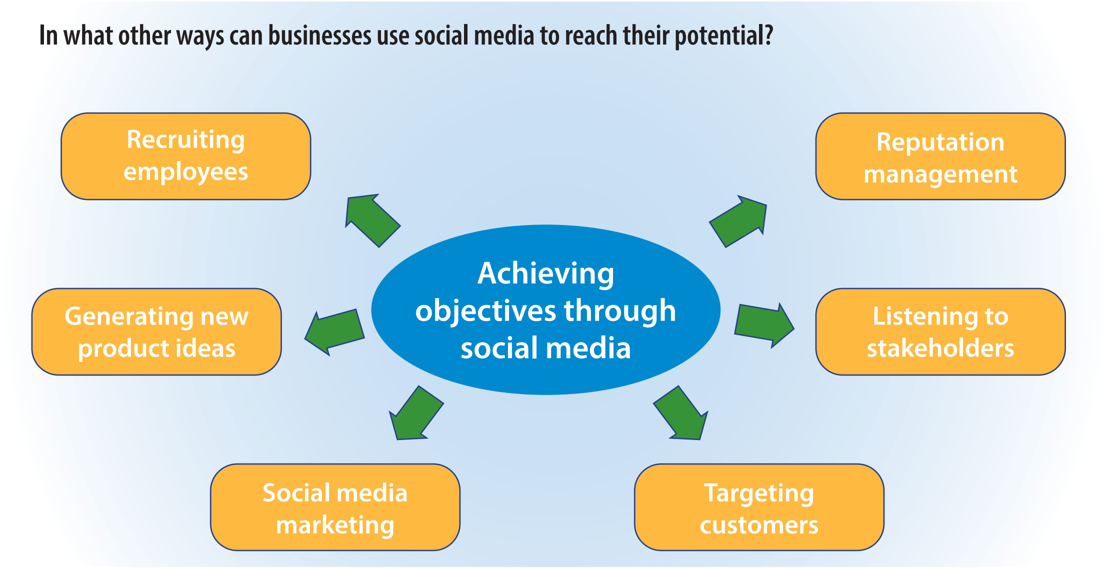

FIGURE 9-6
Ways that Companies Use Social Media to Achieve Business Objectives

Reputation Management

Employees should be trained in social media etiquette and monitor social media sites to see what is said about the company and its products. In challenging times, companies can use social media to answer questions with carefully worded posts, reassure the public, and present positive information to help maintain their reputations. By responding quickly and providing customers with valuable support, the damage to both the company and its customers can be minimized.

Listening to Stakeholders

Listening to people, whether they are customers or not, is always an important aspect of a company's social media plan. Indeed, listening is often the first step when developing a social media strategy. By monitoring Facebook, Twitter, or other social media sites, companies can determine what customers think about their products or services. If a company receives negative comments, it's important to respond quickly. Typically, the first step is to admit the mistake and apologize when criticism about a product or service is justified. A personal response either on social media or a personal contact often will help resolve a complaint and at the same time restore customer goodwill. It also helps if the customer feels that the company will take action to correct the problem. For example, many companies encourage customers to complete quick surveys about products or services, often providing customers with a link to a short survey on the bottom of their receipt. Customers are free to provide both positive and negative comments about their

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dining experience. Those comments are then used to fine-tune restaurant operations. In some cases, when negative reviews are justified, customers receive a personal note that may be accompanied with a gift card to encourage customers to become return customers.

Targeting Customers

For businesses to succeed and remain profitable, they must identify who the customer is and what characteristics make the customer unique, in order to target them appropriately in marketing strategies. Many companies are using social media to increase awareness and build their brand among customers. For example, an online health food store might use social media, blogs, and email newsletters to share healthy recipes using its products. An effective e-marketing strategy has been proven to increase profits.

FYI

Saudi Arabia has a young population, with over 58% under the age of 35. Digital marketing is especially valuable in targeting this technologically-minded generation, who have grown up with it as part of everyday life. Consider that much of the technology discussed in this chapter didn't exist as recently as 5 years ago!

Social Media Marketing

Social media marketing is the utilization of software, computer technology, and the Internet to provide information about a firm's products and services, increase sales revenues, and improve customer service for a business. As companies become more comfortable with social media, we can expect even more companies to use social media to market products and services to their customers. Already, research indicates that companies are shifting their advertising money from traditional marketing (like television and magazines) to digital marketing (like Internet search engines and social media). Billions of Riyals are spent every year on search engine marketing, display advertising, social media marketing, and email marketing—more than they spend on broadcast and cable television advertising combined.

The primary reason is simple: People are spending more time on social media sites. Often the first step for a business that wants to use social media is to go to LinkedIn, Facebook, Twitter, or some other popular social media site.

Today, many companies have been quite successful using social media marketing not only to develop customer awareness, but also to obtain sales leads and increase actual sales. Software companies have been established to help small and medium-sized companies develop their marketing programs.

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Generating New Product Ideas

Companies can use social media to conduct much of their consumer-based research. Using insight gained from Facebook or Twitter, for example, allows a company to modify existing products and services and develop new ones. **Crowdsourcing** involves outsourcing tasks to a group of people in order to tap into the ideas of the crowd. In some cases, valuable information can be obtained by crowd voting. Companies can even build communities for specific brands in order to obtain information and new ideas from consumers. In some cases, communities are given the opportunity to vote on ideas suggested from the group that will be turned into new products.

FYI

Crowdsourcing—a new way to generate ideas for products and services. Who knows more about their needs than the customer? Research confirms that crowdsourced products sell better when the people who will use the product are involved in the development of the product or service.

Recruiting Employees

LinkedIn, the largest social network for professionals, has been used effectively by large corporations, small businesses, non-profit organizations, and government agencies that want to recruit new employees. Because LinkedIn hosts over 800 million registered members, employers using the site can save time, reduce their recruiting costs, and see more information about individual candidates.

CHECKPOINT
How can businesses use social media to help achieve their objectives?

How can businesses use social media to recruit new employees?

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9.3 ASSESSMENT

Key Concepts

Determine the best answer.

1. True or False. A wiki is an interactive version of a community bulletin board that focuses on threaded discussions.

2. Which of the following social media platforms is specifically aimed at professionals and focused on recruitment and business networking?
   a. Facebook
   b. YouTube
   c. LinkedIn
   d. Twitter

3. True or False. Crowdsourcing involves outsourcing tasks to a group of people in order to tap into the ideas of the crowd.

Make Academic Connections

4. **Research** Visit three websites of companies that sell products or offer services online in Saudi Arabia. Check whether each has a presence on social media and determine which platforms they use to engage with customers. Based on the information available, describe how effective they are at using social media to promote their business and suggest any improvements that could be made.

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Chapter 9 Assessment

Review Business Concepts

9.1 Business Applications of Technology

- The four main components of a management information system (MIS) are gathering data, analyzing data, storing data, and reporting results. The goal of an MIS is to change raw data (facts and figures) into information that can be used by managers.
- Service industries that make extensive use of computers and technology include public service organizations, educational institutions, healthcare facilities, and financial service organizations.

9.2 E-Business

- E-business is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs through the facilities available on the Internet. Engaging in e-business can help companies to increase revenues and reduce expenses.
- A range of e-business models can be adopted as a result of new technologies. These are B2B (business-to-business), B2C (business-to-consumer), C2B (consumer-to-business), and C2C (consumer-to-consumer).
- Saudi Arabia is playing an active role in the Fourth Industrial Revolution, a term used to describe the rapid development of new technologies in the 21st century.
- E-commerce involves the conducting of business transactions over the Internet or through other electronic technology.

9.3 Social Media in Business

- Social media has completely changed the business environment. Using social media, companies can share information about their products and services, and improve customer service. Now many companies, large and small, are using social media to learn about customers' likes and dislikes, seek public input about products and marketing, and promote particular products.
- Social media is here to stay. Companies that choose to actively engage with it have a better chance of survival and increasing profits.
- A range of social media tools are available to businesses including blogs, photo and video sharing platforms, social gaming apps, social media communities, and customer review websites.

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Think Critically About Business

1. How do you think e-business has enabled small local businesses to operate internationally?

2. How is it possible for the increased use of computers to create more jobs than are lost?

3. How might expert systems be used in the future to help people solve medical, legal, financial, and other technical problems?

4. What are potential benefits from the use of smart cards in handling everyday transactions?

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Develop Your Business Language

Match the terms listed with the definitions.

	Term	Your Choice	Definition
5.	Blog		**a.** A coordinated system of processing and reporting information in an organization.
6.	Business-to-business (B2B) model		**b.** The use of computers to help people learn or improve skills at their own pace.
7.	Business-to-consumer (B2C) model		**c.** The online interactions that allow people and businesses to communicate and share ideas, personal information, and information about products and services.
8.	Computer-assisted instruction (CAI)		**d.** Allow companies to create and share information about their products and services via blogs, videos, and photos.
9.	Crowdsourcing		**e.** A model used by firms that focus on conducting business with individual consumers.
10.	Disruptive technology		**f.** A website that allows a company to share information in order to not only increase the customer's knowledge about its products and services, but also to build trust.
11.	E-business (or electronic business)		**g.** Allow users to upload photos, videos, and podcasts.
12.	Forum		**h.** A novel innovation that challenges the existing status quo through the introduction of new, alternative approaches.
13.	Fourth Industrial Revolution		**i.** The utilization of software, computer technology, and the Internet to provide information about a firm's products and services, increase sales revenues, and improve customer service for a business.
14.	Management information system (MIS)		**j.** Digital audio or video files that people listen to or watch online on tablets, computers, smartphones, or other mobile devices.
15.	Media sharing sites		**k.** Groups of people who share common interests and who want to engage in conversations about issues they consider important or interesting.
16.	Outsourcing		**l.** A multiplayer, competitive, goal-oriented activity with defined rules of engagement and online connectivity among a community of players.
17.	Podcasts		**m.** An interactive version of a community bulletin board that focuses on threaded discussions.
18.	Revenue stream		**n.** A collaborative online working space that enables members to contribute content that can be shared with other people.
19.	Social media sites		**o.** A high-level executive who is responsible for all of a company's social media activities.
20.	Social game		**p.** The era of the 21st century characterized by the rapid development of new technologies.
21.	Social media		**q.** Outsourcing tasks to a group of people in order to tap into the ideas of the crowd.
22.	Social media communities		**r.** The organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs through the facilities available on the Internet.
23.	Social media community manager		**s.** The removing work from one company and sending it to another company that can complete it at a lower cost.
24.	Social media marketing		**t.** A source of revenue flowing into a firm.
25.	Wiki		**u.** A model used by firms that conduct business with other businesses.

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Make Academic Connections

26. **Communication** Talk to people who make online purchases. What types of products do they buy most frequently? What do they like best about shopping online? What concerns do they have about buying online? Prepare a table with a summary of your findings.

27. **Technology** Prepare a list of daily activities and information items that might be included in the processing and storage capabilities of a smart card. Using information from your list, provide an example of a situation where a smart card might be used.

28. **Marketing** Imagine you are setting up a small business in your neighborhood. Suggest how you could use social media and other technology to help market the business to potential customers.

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29. **Math** A small business usually sends about 3,800 pieces of mail per month at SAR 0.42 each. If the firm switches to an e-mail service at a cost of SAR 1,250 per month, how much money would it save or lose? What other factors should the company consider before making this change?

30. **Geography** Many nations around the world do not have a reliable telephone service. As a result, mobile and wireless communication has grown at a fast pace in these countries. Conduct research and prepare a map reporting the countries with a significant usage rate of wireless communication.

31. **Technology** Research new technologies in development in Saudi Arabia that are part of the Fourth Industrial Revolution. Describe their key characteristics.

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Make Your Case

A manufacturing company in Jeddah assembles electronic devices used in offices and homes. They employ about 600 people in various office, factory, and warehouse positions. Currently, all factory and warehouse jobs are performed manually. Managers at the company are considering replacing 150 assembly line workers with a computerized system. The company can save SAR 135,000 a year in operating costs by using this new technology.

32. What factors should the company consider before using the computerized assembly line system?

33. If the company uses this new system, what should the company do to help workers who are displaced by this technology?

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Interactions and Connections

34. Talk with a few members of your community about the computers and technology they use on the job. Ask them to describe technology changes they have seen in their jobs during the last year and during the last three years. Also ask them to identify the computer skills they think are important for career success. Prepare a one-minute presentation that summarizes your findings.

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35. The number and popularity of social networking sites on the Internet continue to grow. Social networking websites allow multiple users to communicate through an individual website. There are a wide variety of social networking sites with many users. The enjoyment and convenience of a social networking site is tempered by concerns about illegal and unethical behavior. All users need to take precautions when using these sites. Make a list of the activities that people participate in while using social networking sites. Then, make a list of problems that might arise when using social networking sites. Use the Internet or library resources to identify recommendations for safe social networking practices. Create a one-page flyer of tips for social network users.

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Project

Preparing a Business Plan

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Introduction

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The Business Plan Project reinforces and expands upon the topics covered throughout the book, helping you to put the theory into practice by following the steps to construct a business plan summary. This will equip you with a solid foundation for starting the journey of becoming an entrepreneur or small business owner.

In this section, you will look at the stages of writing a business plan. We will use the example of Ali, who is creating a new app.

Ali recently graduated from college and has decided to set up his own business from his home in Riyadh. He enjoys traditional Arabic coffee and, whenever he travels to cities and towns across Saudi Arabia, he searches for the best cafés. Ali has decided to create an app to help other people like him find the best coffee, wherever they are in the Kingdom. Ali wants his customers to be able to use the app to select personal preferences such as cafés with seating, free Wi-Fi access, and responsibly sourced coffee beans. He also wants to develop the functionality to reserve a table and order takeaway drinks directly from his app. Having chosen an idea for his new business, Ali now needs to consolidate it into a viable business plan.

You should remember from Chapters 1-4 that the business plan will need to demonstrate that Ali has put together:

- The right opportunity
- The right resources
- The right people
- The right financing structure
- All within the right context.

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By making decisions about these key factors, you can be sure that you are dealing with the important issues, and this will help you in determining the appropriate content to include in the plan.

1. The *opportunity* should reflect the potential and the attractiveness of the market and industry.
2. *Critical resources* include not just money but also human assets (suppliers, accountants, lawyers, investors, etc.) and hard assets (accounts receivable, inventories, etc.).
3. The *entrepreneurial team* must possess integrity, as well as breadth and depth of experience.
4. The *financing structure*: how a firm is financed and how the ownership percentage is shared by the founders and investors will have a significant impact on an entrepreneur's incentive to work hard.
5. The *context* (or external factors) of an opportunity includes the regulatory environment, interest rates, demographic trends, inflation, and other factors that inevitably change but cannot be controlled by the entrepreneur.

There is no single format to be followed in writing a business plan. However, investors usually like to see the plan in a format that is familiar to them. They are also very busy and receive many pitches. Presenting a business plan with a unique format could be very risky.

	INFORMATION PROVIDED
1. Cover page	Company name, logo, tagline, contact information, copy number, and date prepared
2. Table of Contents	Listing of the key sections of the business plan
3. Executive Summary	One- to three-page overview of the significant points, intended to motivate the reader to continue reading
4. Company Description	Company objectives, the nature of the business, its primary product or service, and history (if applicable), and the legal form of organization
5. Industry and Competitor Analysis	Key characteristics of the industry, including the niche where you plan to compete
6. Target market and customer analysis	The different segments, demographics, and customer requirements you are focusing on
7. Product/Service Plan	Justification for why people will buy the product or service, based on its unique features
8. Marketing Plan	Marketing strategy, including methods of identifying and attracting customers, pricing models, sales and advertising methods, and distribution channels
9. Operational Plan	Operating or manufacturing methods, operating facilities (location, space, and equipment), quality-control methods, procedures to control inventory and operations, sources of supply, and purchasing procedures
10. Management Team	Description of the management team, outside investors and/or directors, and plans for recruiting and training employees
11. Critical Risks	Any known inherent risks in the venture
12. Financial Plan	How much capital the entrepreneur needs and how the money will be used (section used to attract investors) Contemplated sources of financing; any historical financial statements, if available; pro forma financial statements for three to five years, including income statements, balance sheets, cash flow statements, and cash budgets
13. Appendix of Supporting Documents	Various supplementary materials and attachments to expand the reader's understanding of the plan

P.1
Business Plan Template for Ali's coffee app

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Section 1
The Content and Format of the Business Plan

We will now go through the contents of the business plan in more detail.

1.1 Step 1: Cover Page

The cover page should contain the following information:

- Company name, address, phone number, and website.
- Tagline and company logo.
- Name of contact person (preferably the president) with mailing address, phone number, and e-mail address.
- Date on which the business plan was prepared.
- If the plan is being given to investors, a disclaimer that the plan is being provided on a confidential basis to qualified investors only and is not to be reproduced without permission.
- Number of the copy (to help keep track of how many copies have been given out).

1.2 Step 2: Table of Contents

The table of contents provides a sequential listing of the sections of the plan, with page numbers. This allows the reader to spot-read the plan (a common practice) rather than reading it all the way through.

1.3 Step 3: Executive Summary (Overview)

The executive summary, or overview, is often thought to be the most important section of the business plan. If you do not catch the readers' attention in the executive summary, they will not continue reading. At the very outset, it must:

1. Convey a clear and concise picture of the proposed venture.
2. Create a sense of excitement regarding its prospects.

This means that it must be written to achieve clarity and create interest.

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Even though the executive summary comes at the beginning of the business plan, it provides an overview of the entire plan and should be written last. In no more than three (preferably two) pages, the executive summary should include the following subsections:

- A description of the opportunity
- Explanation of the added value of the proposed product or service
- An industry overview
- The target customer and market analysis
- The competitive advantage you hope to achieve in the market
- The economics of the opportunity
- The management team
- The amount and purpose of the money being requested (the "offering") if you are seeking financing.

As Ali is in the process of starting his app, he must make the business proposal exciting and interesting to the reader. It is important for Ali to complete further research into who his potential investors might be and why they would find his business interesting. Is there short term potential or long term opportunities? What is it that makes his business stand out from all the other apps which are available?

1.4 Step 4: Company Description

The company description informs the reader of the type of business being proposed, the firm's objectives, where the firm is located, and whether it will serve a local or international market.

In writing this section, the entrepreneur should answer the following questions:

1. When and where is the business to be started?
2. What are the firm's objectives?
3. In what stage of development is the firm – for example, seed stage or full product line?
4. What has been achieved to date?
5. What is the firm's competitive advantage?
6. What are the basic nature and activity of the business?
7. What is its primary product or service?
8. What customers will be served?
9. What is the firm's form of organization – sole proprietorship, partnership, limited liability company, corporation, or some other form?
10. What are the current and projected economic states of the industry?
11. Does the firm intend to sell to another company or an investment group? Does it plan to be a publicly traded company, or do the owners want to transfer ownership to the next generation of the family?

This will be quite a brief section for Ali as he is likely to be a sole trader to start with and the start date may be quite fluid. Ali only has a broad idea of the nature and activity of the business as it is still only an idea and has not been fully researched.

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1.5 Step 5: Industry and Competitive Analysis

The primary purpose of this section is to present the opportunity and demonstrate why there is a significant market to be served. You should describe the broader industry in which you will be competing, including industry size, growth rate, fundamental trends, and major players.

For industry analysis, identify the different segments of the industry, and describe in detail the niche in which you plan to participate. Provide the context of the opportunity and demonstrate that a market segment is being underserved.

Competitive analysis is used to analyze the strengths and weaknesses of potential competitors. What weaknesses do competitors have that you would improve on? What strengths do they have that you could adopt?

In the case of Ali, he has already completed some basic research to find out if any other apps already exist that offer similar services. He has not found any that offer the complete service he wants to provide. However, individual coffee shops have some elements he wants to provide on their own apps and websites. He should list the competitor strengths and weaknesses in a table and determine how he can provide a better service. Are the competitors' apps available in the same regions as Ali's proposed app? Can Ali provide any additional features or a different promotional strategy?

Scan the QR code to see Ali's table.

In Chapter 1: Exploring the World of Business and Economics, Figure 1-3 addressed types of competition that a new business might face.

1.6 Step 6: Target Customer and Market Analysis

The next step is to describe your target customer in terms of demographics such as education, gender, location, age, and income. The more clearly you can identify your customer, the more likely it is that you will provide a product or service that is in demand. Finally, knowing who your customer is will serve as the basis for understanding who your competitors are. You should analyze competitors in terms of product or service attributes that they offer or are failing to provide.

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In analyzing the market for your product or service, you must know who your customers will be and what they want. This information should come not just from market studies, but also from talking directly to customers. With this in mind, you need to determine the answers to the following questions:

- What is your target market?
- How large is the target market?
- What problems concern the target market?
- Are any of these problems greater than the one you're addressing?
- How does your product or service fix the problem?
- Who will buy your product or service?
- How much are they willing to pay for it?
- Why do they need it?
- Why would they buy from you?

In the case of Ali, he thinks the main customers for his app are likely to be tech-savvy coffee drinkers. To target those who are familiar with using apps, Ali might initially wish to concentrate on those between the age of 15-25. Ali should establish how big the market is by carrying out research into this age group, find out what is important to them when deciding on a coffee shop and what would make them download the app. Is charging customers for the app the best way to make revenue? Will coffee shops want to pay to improve their ranking? Will customers trust the feedback shown?

1.7 Step 7: Product/Service Plan

The product/service plan describes the products and/or services to be offered to the firm's customers. Now is the time to make a convincing presentation of your company's competitive advantage. Based on your earlier description of the industry and its major players, explain how your product or service fills a gap in the market or how your product or service is "better, cheaper, and/or faster" than what is currently available. In the case of a physical product, try to provide a working model or prototype. Investors will naturally show the greatest interest in products that have been developed, tested, and found to be functional.

Your growth strategy for the product or service should be explained in this section, as growth is a primary determinant of a firm's value.

Ali has both short term and long term ideas for his service. In the short term he plans to provide factual data such as the products and services each coffee shop offers. How will Ali be able to show that his product is better than existing apps? Can he provide any evidence that his ideas will work in practice? Has he any evidence that these are the services that customers want? What research can Ali do to justify his long term aims? Is it possible to create and test the features of the app?

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1.8 Step 8: Marketing Plan

The marketing plan is the basis for describing the firm's marketing strategy. In other words, how will you entice customers to make them change to your product or service and to continue using it? Remember, you must have a compelling value proposition, as discussed earlier in the chapter.

This section should include the following topics:

- Methods of identifying and attracting customers
- Pricing models (used to establish the best price for a product or service)
- Sales and advertising methods (used to promote your business)
- Methods of distribution (Choosing the best way to get products or services to your customers.)

As Ali is intending to attract young, tech savvy coffee drinkers, he needs to decide the best way of identifying and attracting users of his app. As Ali is a sole trader, he is unlikely to have a sales or marketing team in the short term. Nor is he likely to have a large marketing budget. Are there any low cost sales and marketing techniques that Ali can utilize? What options does Ali have to generate an income? What are the popular distribution channels available for apps?

1.9 Step 9: Operations and Development Plan

The operations and development plan offers information on how the product will be produced or the service provided. Here, you will explain how the operations will contribute to the firm's competitive advantage – that is, how its operations will create value for the customer.

This section discusses items such as the following:

- Location and facilities, including how much space the business will need and what type of equipment it will require.
- The choice between in-house production and outsourcing to minimize costs.
- The company's proposed approach to assuring quality, controlling inventory, and using subcontractors for obtaining raw materials.

Ali's business won't need premises such as a factory or a large office space. Initially, being app-based, he can operate remotely. As the business grows, will he need to consider expanding into a larger space to employ additional employees?

He can also outsource the more complex software development to external companies. Ali needs to research how much software development costs are likely to be. Does Ali have the correct knowledge and software to design commercial apps?

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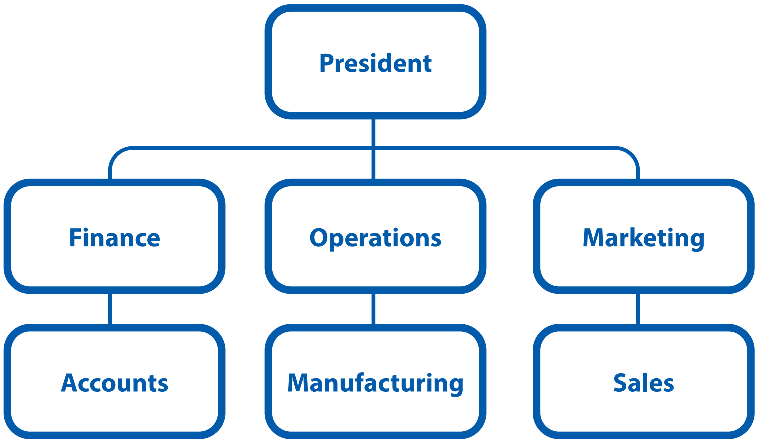
1.10 Step 10: Management Team Section

Prospective investors look for well-managed companies. Some investors say that they would rather have an "A" management team and a "B" product or service than a "B" team and an "A" product or service. But it can also be said that the right management in the wrong market is likely headed for failure. For success, you must have a good team working in a growth market.

The management team section should detail the proposed venture's organizational structure and the backgrounds of those who will fill its key positions. Ideally, a well-balanced management team – one that includes financial and marketing expertise, as well as production experience and innovative talent – will already be in place.

> Ali has not set up his business yet as he has recently graduated from college. He doesn't have any staff yet to help him create his app and he needs to find the right people. How will Ali find and manage new employees, and how much budget will he need to pay his new team?

In Chapter 2: Business Organization, Figure 2-1 introduced a Business Organization Chart. In comparison to an established business, which may have amassed a large workforce and many departments, a new business is likely to have a simplified management structure, as illustrated in the chart below:



1.11 Step 11: Critical Risks Section

The business plan is intended to tell a story of success, but there are always risks associated with starting a new venture. Thus, the plan would be incomplete if it did not determine the risks inherent in the venture. The critical risks section identifies the potential pitfalls that may be encountered by an investor.

Common risks include:

- A lack of market acceptance (customers don't buy the product as anticipated)
- Competitors offering the same product/service
- Longer time period and higher expenses than expected to start and grow the business
- Inadequate financing
- Organizations and infrastructure

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Understanding critical risks is especially important for companies, where a new product or service must be significantly better than those currently available in order to overcome the inertia that many customers experience when faced with changing to a new technology.

As Ali's business is developing an app, there won't be many major cash outflows. Therefore, the financial risk is likely to be low. However, are there high or low barriers of entry to app design? For example, will coffee shops want to be associated with Ali's app? How easy or difficult is it to create a new app from scratch? What happens if Ali provides incorrect or misleading data? Which laws does Ali need to be aware of?

1.12 Step 12: Financial Plan and Offering

If the entrepreneur is seeking capital from investors, an offering should be included in the plan to indicate clearly how much money is needed and when. It is helpful to convey this information in a sources and uses table that indicates the type of financing being requested (debt or equity) and how the funds will be used.

SOURCES:	
Bank debt	SAR 100,000
Equity:	
New investors	300,000
Founders	100,000
Total sources	SAR 500,000
Uses:	
Product development	SAR 125,000
Personnel costs	75,000
Working capital:	
Cash	20,000
Accounts receivable	100,000
Inventory	80,000
Machinery	100,000
Total uses	SAR 500,000

For example, for a firm needing SAR 500,000, including any money borrowed and the founder's investment, the sources and uses table for the first year might appear as in the table on the left.

If equity is being requested, the entrepreneur will need to decide how much ownership of the business she or he is willing to give up – not an easy task in most cases. Typically, the amount of money being raised should carry the firm for 12 to 18 months. Then, if all goes well, it will be easier and less costly to raise more money later.

Ali currently has a basic idea and does not have a working prototype of his app. Ali also has no business experience, although he did complete an app development course in college.

Will seeking investment at this time be appropriate? Will investors be keen to offer funding for his idea? Is funding the only resource that Ali would need from investors? What else could be provided in addition to funding?

The financial plan presents financial forecasts as pro forma statements. This section of the business plan should show that the proposed business can be self-supporting and, ultimately, profitable. To do this, the entrepreneur needs to be honest with himself or herself and fully consider the company's financial outlook.

Pro forma statements, which are projections of the company's financial statements, should be presented for at least three years and possibly up to five years. The forecasts ideally include balance sheets, income statements, and statements of cash flows on an annual basis for three to five years.

When developing forecasts, it is imperative that you return to your business model. That is, the business model should be the foundation of your financial forecasts. Otherwise, you will have no meaningful basis for justifying your financial assumptions.

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While every financial statement is important, the pro forma statements of cash flows deserve special attention, because a business can be profitable but fail if it does not produce positive cash flows. A well-prepared statement of cash flows identifies the sources of cash – that is, how much will be generated from operations and how much will be raised from investors. It also shows how much money will be devoted to investments in areas such as inventories, equipment, research, and development. The statements of cash flows should clearly indicate how much cash is needed from lenders and prospective investors and for what purpose.

Ali needs to predict how much income his app is likely to make and how high the monthly costs will be. Has Ali researched how much app development help he will need? How much travel will Ali need to do to research the coffee shops? How much money will be required for expenses such as buying coffee and travel? How many app users does Ali need to attract to break even?

1.13 Step 13: Appendix of Supporting Documents

The appendix should contain various supplementary materials and attachments to expand the reader's understanding of the plan. These supporting documents include any items referenced in the text of the business plan:

- Résumés of key investors and owners/managers.
- Photographs of products, facilities, and buildings.
- Professional references.
- Marketing research studies.
- Pertinent published research.
- Signed contracts of sale.

The fact that it appears at the end of the plan does not mean that the appendix is of secondary importance. The reader needs to understand the assumptions underlying the premises set forth in the plan. Nothing is more important to a prospective investor than the qualifications of the management team.

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Summary

You should now be able to describe the preferred content and format for a business plan. The opportunity, the critical resources, the entrepreneurial team, the financing structure, and the context of an opportunity are all interdependent factors that should be given consideration when thinking about the content of a business plan.

Key sections of a business plan are the (1) cover page, (2) table of contents, (3) executive summary (overview), (4) company description, (5) industry, target customer, and competitor analysis, (6) product/service plan, (7) marketing plan, (8) operations and development plan, (9) management team, (10) critical risks, (11) offering, (12) financial plan, and (13) appendix of supporting documents.

Task: Test Your Knowledge

Think again about Ali's business idea. Using the template from Figure P1, start to fill out a business plan for Ali.

In this scenario, Ali has some experience and knowledge of how to create apps. He is a coffee drinker but is not an expert. Ali has made some good connections with fellow graduates, but he does not have connections in the business world.

Which of the following questions can you answer?

1. Which segment of the population should Ali target? Justify your answer.
2. Search the internet and name a few of Ali's local and international competitors.
3. Create a logo and propose a name for Ali's App.
4. Search the history of coffee consumption in Riyadh.
5. If Ali decides to get a 50% commission on each transaction, how many transactions does need to secure to reach 1,000,000 SAR?

Fill out as much of the template as you can. What does Ali still need to work on if he is to have a successful business plan?

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Section 2
Writing a New Business Plan

Below are some ideas for new businesses or problems that need business solutions. We have also left a space for you to write in your own idea.

Idea Pool

Idea 1: An app that links tourists with private tour guides in Saudi Arabia. The app would have to enable tourists to select the type of tour and location needed as well as any special requirements.

Idea 2: A mobile dry cleaner that goes to the customer instead of being fixed in one location.

Idea 3: An app that creates a directory of shops in shopping malls around the country, which uses customer reviews to rate shops based on the value of the products, how busy the mall is, and how tasty the food is.

Idea 4: Write your own idea here.

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Idea 4 continued

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Initial Sketch

Key questions

Think about the following key questions:

- What is your new idea? Is it a product or a service?
- How unique is your business idea?
- What benefits do your customers gain from your business idea?
- What is your target group?
- Which sectors and markets are relevant for your company?
- Which people make up the management? What experience and expertise do they have?
- Which long-term goals do you want to achieve with your company?
- What opportunities and threats do you see?
- Which market entry strategy are you planning?
- How much capital do you need and what is it needed for? In Phase 1 a rough estimate is sufficient here.
- What are the most important milestones you need to reach on your way to achieving your goals?
- How large will the investment needs for your company be over the next five years?
- How much turnover and profit have you planned to achieve over the next five years?

Now choose your business idea. Write your answers to the above questions.

Your Business

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Your Business continued

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Section 3
Business Plan Template

Look at the questions and complete the boxes with your answers to the questions in Steps 1 to 13. This is a business plan template for you to use and apply to your business and the steps will guide you through the process.

Step 1: Cover page

1. What image do you want to project on the first page?
2. What is the most important information on the page?
3. How will investors find you?
4. Do you have a logo/slogan ready?
5. What is the name of your business?
6. What does your choice of business name say about your business? Is it unique and memorable? Is it easy to pronounce?

Cover page

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Cover page continued

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Step 2: Table of contents

1 How can styles be used to allow the reader to find information quickly?
2 How will you name each section to ensure clarity for the reader?
3 How are subheadings used?

Table of contents

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Table of contents continued

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Step 3: Executive summary

1 Does the first paragraph contain information to interest the reader?
2 Does the summary highlight positive outcomes for the reader?
3 Is the information presented in a clear and logical manner?

Executive summary

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Executive summary continued

Step 4: Company description

1 Does the description highlight all the positive aspects of the company?
2 Does the company description sound realistic?
3 Does the company description highlight growth opportunities?
4 Are any claims justified or based on research evidence?

Company description

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Company description continued

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Step 5: Industry and competitive analysis

1. What is the total market value or size?
2. What is the growth potential?
3. Who is the market leader and what is their market share?
4. Who are your most important competitors, and how big is their market share?
5. How is your offering different to that of your competitors?
6. Can you identify weaknesses in the competition? How can you make use of these?
7. What are the strengths of your business?
8. Does your business have any weaknesses?
9. What are the opportunities that could give your business an advantage?
10. What are the threats that could harm your business?

Scan the QR code to see a template which you can use to analyze competitors.

Industry and competitive analysis

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Industry and competitive analysis continued

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Step 6: Target customer analysis

1 Define your target customer in detail. Who will your customers be?
2 Are they male and/or female? Where do they live?
3 What is their income and educational background?
4 What do they like and dislike?
5 What market research have you completed and/or planned?
6 What are the current and projected sales volumes for the target customer segment?
7 Why will customers choose your product or service instead of competitor products or services?

Target customer analysis

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Target customer analysis continued

Step 7: Product/service plan

1 What are the specific details of your product or service?
2 Will your product or service be immediately available and how can you develop your range of products or services in the future?
3 What does your product or service provide that other businesses do not?
4 Why will customers want to choose your service over existing competitors?

Product/service plan

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Product/service plan continued

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Step 8: Marketing plan

1 What is the unique selling point of your product or service, who needs it and why?
2 How will you position your product or service— is it a luxury, a necessity or something else?
3 What pricing strategy will you use? What factors must you consider when setting a price?
4 Why will this pricing strategy be effective? Will discounting be required?
5 Where will the product be available? What distribution channels are going to be most effective for your target customer group?
6 What is your marketing budget?
7 What methods of promotion will you use?
8 What will make your marketing campaign stand out and be memorable?
9 How will you market your business online?
10 What kind of online marketing tools will you adopt?

Marketing plan

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Marketing plan continued

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Step 9: Operational plan

1 Where will you base your operations? What effect will growth have on your current operations base?
2 Will in-house production be used to maintain control of operations, or will outsourcing be used to minimize costs?
3 How will you ensure that the operations which are crucial to your competitive advantage are kept safe from competition?
4 How will quality be controlled? What impact will this have on the growth of the business?

Operations and development plan

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Operations and development plan continued

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Step 10: Management team

1 What does the hierarchy of the organisation look like?
2 What experience does your management team need to ensure the success of operations?
3 How will the different functional areas communicate with each other?
4 How will you attract experienced managers to work in your company?

Scan the QR code for a suggested organizational chart template.

Management team

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Management team section continued

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Step 11: Critical risks

1 What are the most likely causes of business failure?
2 For each cause, how will the risk be minimized and/or overcome?
3 If the critical risk is realized, what is the likely cost to the business and the investor?

Critical risks

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Critical risks section continued

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Step 12: Financial plan

1 How much will your “startup cost” be to get your business going?
2 What materials and equipment will you need to buy before you can get started?
3 How much will the materials and equipment cost?
4 What financial resources of your own will you be investing?
5 How much investment or capital will be required over the next five years?
6 What is the predicted short-term monthly cash flow forecast?
7 How do you expect your cash flow to develop in the medium term?
8 How much cash will be left in reserve each month?
9 What funding sources are available to you?
10 Do you have an agreed credit limit and/or loan agreement with your bank?
11 If so, what are the predicted or actual loan redemption and interest payments?
12 What alternative options do you have to the financing concept you have drawn up?

Scan the QR code to access a financial template to help you plan the next five years.

Financial plan and offering

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Financial plan and offering continued

Step 13: Appendix of supporting documents

1 What documents will investors want to see?
2 What evidence will each supporting document provide?
3 Are the supporting documents clearly linked to the steps above?
4 How will this help the investor to make an informed decision?

Make sure you now read through your answers to the above steps and check that your notes are coherent. You are now ready to create your final business plan. You could use a business plan template in Word as a starting point and add all the information about your new business.

Appendix of supporting documents

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Appendix of supporting documents continued

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GLOSSARY

A

Absolute advantage a situation where a country can produce a good or service at a lower cost than other countries.

Accountability taking responsibility for the results achieved.

Angel investors business people, often existing entrepreneurs, who have already been successful and are willing to make a cash injection into a fledging business in exchange for a stake in the company.

Application a document used by employers that asks for information related to employment. It gives the employer standard information about each job applicant.

Articles of incorporation a written legal document that defines ownership and operating procedures and conditions for the business.

Artificial intelligence (AI) software that enables computers to reason, learn, and make decisions using logical methods similar to the methods humans use to solve complex cognitive challenges.

Authoritative management a style of management in which the manager is more direct and controlling.

Authority the right to make decisions about how responsibilities should be accomplished.

B

Balance of payments the difference between the amount of money that comes into a country and the amount that goes out of a country.

Balance of trade the difference between a country's total exports and total imports.

Bank statement a report on the status of a bank account.

Base plus incentive a compensation system which combines a wage or salary with an additional amount based on the employee's performance.

Basic economic problem the mismatch of unlimited wants and needs and limited economic resources.

Benefits compensation in forms other than direct payment.

Blog a website that allows a company to share information in order to not only increase customers' knowledge about its products and services, but also to build trust.

Blue-collar workers workers who are involved in physical work, including the operation of machinery and equipment or other production activities.

Board of directors the people who make the major policy and financial decisions for the business.

Brand a name given to a product or service to distinguish it from other similar and competitive items.

Brand name a unique identification for a company's products.

Budget detailed plans for the financial needs of individuals, families, and businesses.

Budget deficit a financial situation that occurs when a government spends more than it takes in.

Budget surplus a financial situation that occurs when a government spends less than it takes in.

Budget variance any difference between actual spending and budgeted amounts.

Business cycle the movement of the economy from one condition to another and back again. The four phases are prosperity, recession, depression, and recovery.

Business ethics rules about how businesses and their employees ought to behave.

Business model explains in a systematic and clear way how a business will generate profits and cash flows.

Business plan a document that outlines the basic concept underlying a business and how that concept will be realized.

Business-to-business (B2B) model a model used by firms that conduct business with other businesses.

Business-to-consumer (B2C) model a model used by firms that focus on conducting business with individual consumers.

C

Capital the value of the borrower's possessions, including money and the property owned.

Capital gain the result of a stock increasing in value and then being sold for more than its original cost.

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Capital loss the result of an investment being sold for less than its original cost.

Capital resources products and money used to produce goods and services.

Capital spending money spent by a business for an item that will be used over a long period.

Career a goal for work that is fulfilled through an occupation or series of occupations.

Career planning the process of studying careers, assessing yourself in terms of careers, and making decisions about a future career.

Code of ethics a set of rules for guiding the action of employees or members of an organization.

Command economy an economy in which resources are owned and controlled by the government.

Commercial bank a bank that offers a full range of financial services.

Commission the amount of money an employee is paid based on a percentage of sales for which he or she is responsible; the fee stockbrokers charge for their services.

Common market (economic community) a market in which members do away with duties and other trade barriers.

Comparative advantage a situation in which a country specializes in the production of a good or service at which it is relatively more efficient.

Compensation the amount of money paid to an employee for work performed, including salary and wages.

Compensation and benefits the human resource activity involving planning and managing payroll, personnel records, and benefits programs.

Competition the rivalry among businesses to sell their goods and services.

Competitive advantage a situation when one business is better able to meet a certain need.

Competitors businesses offering very similar products to the same customers.

Computer-aided design (CAD) the use of technology to create product styles and designs.

Computer-assisted instruction (CAI) the use of computers to help people learn or improve skills at their own pace.

Conflict of interest a situation in which an action by a company or individual results in an unfair benefit.

Consumer a person who buys and uses goods and services.

Consumer movement consumers united to demand fair treatment from businesses and to fight against unfair business practices.

Consumer-to-business (C2B) consumers originate online transactions through price offers to businesses.

Consumer-to-consumer (C2C) buying and selling among consumers in cyberspace.

Contract an agreement to exchange goods or services for something of value, usually money.

Controlling determines to what extent the business is accomplishing the goals it set out to reach in the planning stage.

Copyright the protection of the creative work of authors, composers, and artists.

Corporate bylaws the operating procedures for the corporation.

Corporate governance the system of rules, practices, and processes that outlines how companies are directed and controlled.

Corporate Social Responsibility (CSR) a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

Corporation a separate legal entity formed by documents filed with a state. It is owned by one or more shareholders and managed by a board of directors.

Credit the privilege of using someone else's money for a period of time.

Crowdfunding funding for new ventures in which the general public is invited to donate or invest in the business, in exchange for exclusive perks or early access to the products or services.

Crowdsourcing outsourcing tasks to a group of people in order to tap into the ideas of the crowd.

Culture the accepted behaviors, customs, and values of a society.

D

Database an organized collection of information with data.

Deficit a financial situation in which actual spending is greater than planned spending.

Deflation a decrease in the general level of prices.

Delegative management a style of management in which managers are more collaborative and involve employees in decision making.

Demand the quantity of a good or service that consumers are willing and able to buy.

Depression the phase of the business cycle that is marked by a prolonged period of high unemployment, weak consumer sales, and business failures.

Directing a manager's effort to direct and lead people to accomplish the planned work of the organization.

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Disruptive technology a novel innovation that challenges the existing status quo through the introduction of new, alternative approaches.

Diversity the comprehensive inclusion of people with differences in personal characteristics and attributes.

Division of labor a strategy where workers are assigned specific elements of a manufacturing process to improve efficiency and productivity.

Domestic business the manufacture, purchase, and sale of goods and services within a country's borders.

Downsizing a planned reduction in the number of employees needed in a firm in order to reduce costs and make the business more efficient.

E

E-business (or electronic business) the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs through the facilities available on the Internet.

Economic community See **Common market**

Economic resources things available to be used to produce goods and services.

Economic system the method a country uses to answer the three economic questions.

Ecopreneurs entrepreneurs with a conscience, who put green and sustainable objectives above personal advancement or profit.

Embargo an action imposed by the government to stop the export or import of a product completely.

Employee relations responsible for maintaining a safe, healthy, and productive work environment for all employees.

Entrepreneur someone who takes a risk in starting a business to earn a profit.

Entrepreneurship the process of starting, organizing, managing, and assuming the responsibility for a business.

Equity stock ownership.

Establishment a business owned and run by just one person.

Ethical dilemma a conflict between alternative choices, where each decision can violate ethical principles.

Ethics principles of morality or rules of conduct.

Exchange rate the value of a currency in one country compared with the value in another.

Executives top-level managers with responsibilities for the direction and success of the entire business.

Expert influence influence that exists when group members recognize and appreciate a leader's expertise in a specific area.

Exports goods and services sold to other countries.

External communications communication that occurs between people inside the organization and people outside the organization such as customers, suppliers, and other businesses.

External data sources input provided to the management information system from outside an organization, such as from financial institutions, government agencies, and customers.

F

Factors of production economic resources, including natural resources, human resources, and capital resources.

Farmers people who cultivate land and use other natural resources to grow crops and raise livestock for consumption.

Financial information information that includes budgets, sales reports, and financial statements.

Flexplace a program that allows some employees to complete part or all of their work away from the business site.

Flextime a program that allows employees some choice in how their work days and work hours are arranged.

Foreign debt the amount a country owes to other countries.

Foreign exchange market banks that buy and sell different currencies.

Foreign trade See **International business**

Formal communications established and approved ways for information to move between managers, employees, customers, and others in the business.

Formal influence power based on a leader's position within the formal structure of an organization.

Forum an interactive version of a community bulletin board that focuses on threaded discussions.

Fourth Industrial Revolution the rapid development of new technologies in the 21st century.

Franchise a written contract granting permission to operate a business to sell products and services in a set way.

Franchisee the company purchasing the rights to run the business.

Franchiser the company that owns the product or service and grants the rights to another business.

Fraud deception of consumers by providing false information in an effort to make a sale.

Free-trade agreement an agreement between member countries to remove duties and trade barriers on products traded among them.

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Free-trade zone a selected area where products can be imported duty-free and then stored, assembled, and/or used in manufacturing.

Full-time employee one who regularly works a schedule of 30 hours or more a week.

Functional organizational structure work is arranged within main business functions such as production, operations, marketing, and human resources.

G

GDP See **Gross domestic product**

GDP per capita the output per person, calculated by dividing gross domestic product (GDP) by the total production.

General career skills abilities that can be adapted to varied work situations (also known as *soft skills*).

Global strategy a strategy that uses the same product and marketing strategy worldwide.

Goal a precise statement of results the business expects to achieve.

Goods things you can see and touch; products you can purchase to meet your wants and needs.

Goods-producing industries businesses that produce or manufacture products used by other businesses or purchased by final consumers.

Gross domestic product (GDP) the total value of all final goods and services produced in a country during one year.

H

Home country the country where the headquarters of the multinational company (MNC) is located.

Horizontal communications communications that move across the organization at the same level—employee to employee or manager to manager.

Host country the country in which the multinational company (MNC) places business activities.

Human relations the way people get along with each other.

Human resources people who produce goods and services; people who work for a business.

Human resources information information that includes salaries, employee benefit data, and employee evaluation.

I

Identity influence influence that stems from the personal trust and respect members have for the leader.

Imports products and services that are bought from other countries.

Improvement a designed change that increases the usefulness of a product, service, or process.

Incentive systems compensation systems connected to the quality or quantity of an employee's performance.

Inflation a continuous and influential increase in the general level of prices.

Influence power that enables a person to affect the actions of others.

Informal communications common but unofficial ways that information moves in an organization.

Informal influence power resulting from the personal characteristics of a leader rather than the formal structure of an organization.

Infrastructure a factor that supports international trade in industrialized countries, including a nation's transportation, communication, and utility systems.

Innovation an invention or creation that is brand new.

Intellectual property technical knowledge or creative work. It includes software, clothing designs, music, books, and movies.

Interest rates the cost of money. When it is high, it means higher business costs for businesses that borrow money.

Intermediaries businesses involved in selling the goods and services of producers to consumers and other businesses.

Internal communications communications that occur between managers, employees, and work groups.

Internal data sources input provided to the management information system from within the organization, such as accounting records, inventory information, and company sales figures.

International business business activities that manufacture, ship, and sell goods and services across national borders.

Intrapreneur people who work within an existing corporation as an employee and assumes responsibility for converting a new idea into a profitable product, service, or process. They mostly create value for the company, rather than starting their own new business.

J

Job analysis a specific study of a job to identify in detail the job duties and skill requirements.

Job sharing an arrangement in which one job is offered to two people. Each person works a part-time schedule. They share the work space and duties of the job.

Joint venture a unique business organized by two or more other businesses to operate for a limited time and for a specific project. It is a type of partnership.

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L

Labor force all people of working age who are actively working or seeking work.

Layoff a type of termination which is a temporary or permanent reduction in the number of employees due to changing business conditions.

Leadership the ability to motivate individuals and groups to accomplish important goals.

Licensing selling the right to use some intangible property (production process, trademark, or brand name) for a fee or royalty.

Lifestyle entrepreneurs entrepreneurs who are less focussed on making profits, and more centered upon the lifestyle that running the business affords them. They might enjoy the perks that come with the job and the experiences of working within a particular sector they are interested in.

Limited liability company (LLC) form of business ownership that provides liability protection for owners. It has a simpler set of organizing and operating requirements than a corporation. No articles of incorporation or bylaws are needed. A simple document much like a partnership agreement must be developed.

Limited liability partnership (LLP) a partnership that identifies some investors who cannot lose more than the amount of their investment, but they are not allowed to participate in the day-to-day management of the business.

Loans borrowed funds obtained through banks and other financial institutions.

Logistics managing the acquisition, movement, and storage of supplies, materials, and finished products in a business.

Long-term financing money needed for the main resources of a business (such as land, buildings, and equipment) that will last for many years.

M

Management the process of accomplishing the goals of an organization through the effective use of people and other resources.

Management information system (MIS) a coordinated system of processing and reporting information in an organization.

Management style the way a manager treats and involves employees.

Manufacturers businesses that get supplies from other producers and convert them into products. They sell their products to consumers and other businesses.

Manufacturing combining raw materials and processed goods into finished products.

Market economy an economy in which the resources are owned and controlled by the people of the country.

Market price the point where supply and demand are equal.

Marketing the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

Marketing and sales information information that includes data on customer needs, current economic conditions, and actions of competitors.

Marketing research finding solutions to problems through carefully designed studies involving customers.

Marketing strategy a company's plan that identifies how it will use marketing to achieve its goals.

Marketplace anywhere that goods and services are exchanged.

Media sharing sites a tool for social content, which allow users to upload photos, videos, and podcasts.

Middle managers specialists with responsibilities for specific parts of a company's operations.

Mission statement short, specific written statement of the reason a business exists and what it wants to achieve.

Mixed economy an economy that combines elements of the command and market economies.

Mixed management the combined use of tactical and strategic management styles.

MNC See **Multinational company**

Monopolistic competition a market situation with many buyers and numerous sellers, offering products that are very similar, but not identical, and all satisfy the same need.

Monopoly when a business has control of the market for a product or service.

Multinational company (MNC) an organization that does business in several countries. It usually consists of a home country and divisions or separate companies in one or more host countries.

Multinational strategy a strategy that treats each country market differently. Firms develop products and marketing strategies that adapt to the customs, tastes, and buying habits of a distinct national market.

N

Natural resources raw materials supplied by nature.

Needs things that are required in order to live.

Negative or unfavorable balance of payments the result of a country sending more money out than it brings in.

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New benefit ideas start-up ideas centered around providing customers with new or improved products or services, or better ways of performing old functions.

New market ideas ideas that provide customers with a product or service that does not exist in a particular market but does exist somewhere else.

New technology ideas start-up ideas involving new or relatively new technology, centred around providing customers with a new product or service.

Nonprofit corporation a group of people who join to do some activity that benefits the public.

Nonrenewable resource a natural resource that cannot be replaced when used up.

O

Oligopoly an industry situation with a few large sellers.

Opportunity cost the value of the next-best alternative that you were not able to choose.

Opportunity recognition the ability of entrepreneurs to identify potential new products or services that may lead to promising businesses.

Oral communications communications that are spoken directly or by using technology.

Organization chart a diagram that shows the structure of an organization, classifications of work and jobs, and the relationships among those classifications.

Organizational culture the environment in which people work, made up of the atmosphere, behaviors, beliefs, and relationships.

Organizing the function of a manager that involves identifying and arranging the work and resources needed to achieve the goals that have been set.

Outsourcing removing work from one company and sending it to another company that can complete it at a lower cost.

P

Partnership a business owned and controlled by two or more people who have entered into a written agreement.

Partnership agreement a written agreement among all owners detailing the rules and procedures that guide ownership and operations.

Part-time employee one who works a schedule with either fewer hours each day or fewer than 30 hours each week.

Patent the exclusive right of an inventor to make, sell, and use a product or process.

Perfect (or pure) competition exists when there are many buyers and sellers of a product. No single buyer or seller can affect the price of the product.

Performance management evaluating the work of employees and improving performance through training and development.

Personal income the net salaries and wages as well as investment income that individuals receive.

Personal time a few hours each month that can be scheduled for non-job activities.

Piece rate a pay-for-performance plan in which an employee receives a specific amount for each unit of work produced.

Piracy stealing or illegally copying software packages or information.

Pitch an oral presentation or video presentation of the business idea to investors.

Pivot refocusing a start-up as it develops or completely recreating it if the initial concept turns out to be seriously flawed.

Planning the function of a manager that involves analyzing information, setting goals, and making decisions about what needs to be done.

Planning and staffing activities activities directed at identifying and filling all of the jobs in the company with qualified people.

Podcasts digital audio or video files that people listen to or watch online on tablets, computers, smartphones, or other mobile devices.

Policies guidelines used in making consistent decisions.

Position influence the ability to get others to accomplish tasks because of the position the leader holds.

Positive or favorable balance of payments occurs when a nation receives more money in a year than it pays out.

Procedure a list of steps to be followed for performing a particular work activity; a description of the way work is to be done.

Producers individuals and organizations that determine what products and services will be available for sale.

Product everything a business offers to satisfy a customer's needs.

Product costs costs to the manufacturer of producing the product or the price paid by other businesses to buy the product.

Production and inventory information information that includes production summaries, lists of tools and supplies, and finished goods reports.

Productivity the production output in relation to a unit of input, such as a worker.

Profit portion of revenue left over to the business after all expenses and liabilities have been paid.

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Promotion any form of communication used to inform, persuade, or remind; communicating information about products and services to potential customers; the advancement of an employee to a position with greater responsibility.

Proprietorship a business owned and run by just one person.

Prosperity the peak of the business cycle, it is a period in which most people who want to work are working, businesses produce goods and services in record numbers, wages are good, and the rate of gross domestic product (GDP) growth increases.

Q

Quota a government-set limit on the quantity of a product that may be imported or exported within a given period.

R

Recession the phase of the business cycle in which demand begins to decrease, businesses lower production, unemployment begins to rise, and gross domestic product (GDP) growth slows for two or more quarters of the calendar year.

Recovery the phase in the business cycle in which unemployment begins to decrease, demand for goods and services increases, and gross domestic product (GDP) begins to rise again.

Résumé a tool that provides information about you to a potential employer.

Retail sales the sales of durable and nondurable goods bought by consumers.

Retailers the final business organizations in an indirect channel of distribution for consumer products.

Revenue all income that a business receives over a period of time; government income.

Revenue stream a source of sales revenue flowing into a firm.

Reward influence influence that results from the leader's ability to give or withhold rewards.

Risk the possibility of incurring a loss.

Robotics mechanical devices programmed to do routine tasks, such as those in many factories.

S

Salary and wages direct payment of money to an employee for work completed.

Sales promotion activities and materials designed to reinforce a company's brand and image. It is also a direct incentive to take an action likely to immediately increase sales of a product or service.

Saving the storage of money for future use.

Savings rate the percentage of total income that is saved.

Scalable start-ups entrepreneurs who have big ideas with the potential to go global quickly through rapid expansion. Many social media platforms and online delivery services are examples.

Scarcity not having enough resources to satisfy every need.

Selling communicating directly with potential customers to determine and satisfy their needs.

Selling price the price paid by the customer for the product.

Serial entrepreneurs entrepreneurs who build up new businesses quickly, then sell them on and use the profits to start again with a new venture.

Service business a business that provides services requested by customers.

Service-providing industries businesses that perform services that satisfy the needs of other businesses and consumers.

Services activities provided for the satisfaction of others that are consumed at the same time they are produced.

Shareholders members of credit unions.

Short-term financing the money needed to pay for the current operating activities of a business. Short-term financing is obtained for a period of less than a year and often for one or two months.

Small business a business with 6–49 full-time employees and a SAR 3–40 million in revenue.

Social audit a comprehensive report of what an organization has done and is doing with regard to social issues that affect it.

Social content sites the online interactions that allow people and businesses to communicate and share ideas, personal information, and information about products and services.

Social entrepreneurship an approach that focuses on a social purpose that's integral to the company.

Social game a real-time multiplayer activity in a virtual environment in which players can participate with others in an online community.

Social media the online interactions that allow people and businesses to communicate and share ideas, personal information, and information about products and services.

Social media communities groups of people who share common interests and who want to engage in conversations about issues they consider important or interesting.

Social media community manager a high-level executive who is responsible for all of a company's social media activities.

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Social media marketing the utilization of software, computer technology, and the Internet to provide information about a firm's products and services, increase sales revenues, and improve customer service for a business.

Social media sites allow companies to create and share information about their products and services via blogs, videos, and photos.

Solopreneurs entrepreneurs who work on their own to achieve their aims.

Span of control the number of employees who are assigned to a particular work task and manager.

Specialization of labor the training of workers to do a specific task.

Staffing the function of a manager including all of the activities involved in obtaining, preparing, and compensating the employees of a business.

Start-up financing the amount of money needed to open the business.

Start-ups businesses that did not exist before entrepreneurs created them.

Stock ownership in a company or government entity.

Stock exchange a business organization that accommodates the buying and selling of securities.

Stockholder someone who owns stock in a corporation.

Straight salary a specific amount of money paid to an employee for each week or month worked.

Sukuk a certificate representing a promise to pay a definite amount of money at a stated interest rate on a specified due date. (Known as a bond in some countries.)

Supermarket in food retailing, it is the large, full-service store that carries name brands.

Superstores discount stores that have expanded to include a wide variety of food products. They may also include other retail services such as a bakery, restaurant, pharmacy, and banking.

Supervisors the first level of management in a business, responsible for the day-to-day work of a small group of employees and for carrying out some non-management duties.

Supplier credit credit that companies selling equipment, materials, or inventory to other businesses offer if those businesses do not have financial problems.

Supply the quantity of a good or service that businesses are willing and able to provide.

Supply chain all businesses involved with a product from the time raw materials are obtained until the finished product is sold.

Surveys a marketing research study that gathers information from people using a carefully planned set of questions.

T

Tariff a tax that a government places on certain imported products.

Tax a charge imposed by a government to finance public services.

Tax records financial documents that show all taxes collected, owed, and paid.

Technical skills the skills needed for a specific profession (also known as *hard skills*).

Technology the use of automatic machines, electronic equipment, and integrated computer systems to help increase the efficiency of producing goods and services.

Temporary employee one hired for a specific time or to complete a specific assignment.

Termination the end of an employment relationship between a company and an employee.

Time wage a specific amount of money paid to an employee for each hour worked.

Trade associations an association of people or companies in a particular business or trade that promotes the common interests of the members.

Trade barriers restrictions to free trade.

Trade deficit a situation in which a country imports (buys) more than it exports (sells).

Trade surplus a situation in which a country exports (sells) more than it imports (buys).

Trade-off what you make when you give something up to have something else.

Traditional economy an economy in which goods and services are produced the way they have always been produced. It is used in countries that are less developed and are not yet participating in the global economy.

Transfer the assignment of an employee to another job in the company with a similar level of responsibility.

U

Unemployment rate the portion of people in the labor force who are not working.

Unity of command a clear reporting relationship for all staff of a business.

V

Values rules and principles which focus on ethical criteria that are important to you.

Venture capital money provided by large investors to finance new products and new businesses that have a good chance to be very profitable.

Vertical communications communications that move up or down in an organization between management and employees.

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W

Wants things that add comfort and pleasure to your life.

Warranty a promise by the manufacturer or dealer, usually in writing, that a product is of a certain quality.

Whistle-blowing is informing government officials and related parties about unethical practices within an organization.

White-collar worker one whose work is more mental than physical and involves the handling and processing of information.

Wiki a collaborative online working space that enables members to contribute content that can be shared with other people. With wikis, members of the community are the editors and gatekeepers ensuring that the content is correct and updated.

Work committee a group of employees who communicate with employers about issues affecting workers, such as working conditions and health and safety.

Work environment the physical conditions and the psychological atmosphere in which employees work.

Workforce all of the people 16 years or older who are employed or who are looking for a job.

World trade See **International business**

Written communications communications that include notes, letters, reports, and text or graphics.

Y

Yield the percentage of money earned on savings or investment over a year.

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